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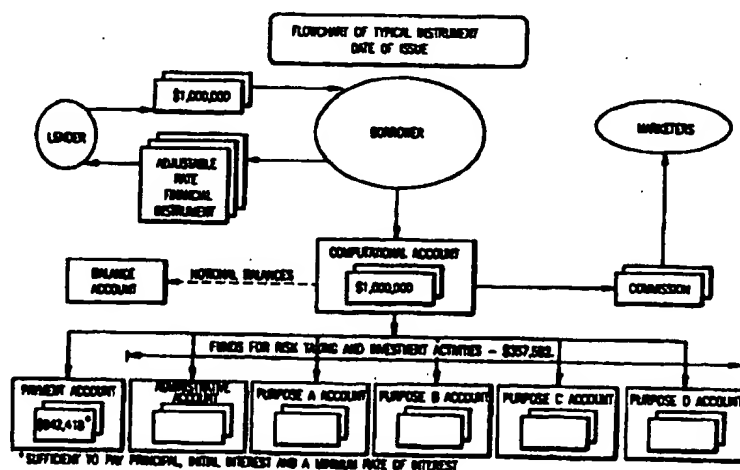
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(54) Title: METHOD AND APPARATUS OF CREATING A FINANCIAL INSTRUMENT AND ADMINISTERING AN ADJUSTABLE RATE LOAN SYSTEM



(57) Abstract

The present invention discloses a method and apparatus of creating a financial instrument (figure 1) which, in exchange for money payments placed with a participating financial institution (figure 1), guarantees return of principal and payment of an adjustable rate of interest over a specified period of time and administering an adjustable rate loan system (figure 1). The interest crediting rate (figure 2) is established each year (figure 2) for the following year (figure 2), within a corridor of minimum and maximum contractually specified rates (figure 2). This rate is generally expected to float in excess of the rate of government securities of similar term, providing the lender (figure 1) with a new method of compensation for accepting longer term risk. The system (figure 1) protects and improves borrower (figure 1) solvency and credit quality by allowing reduced interest payments (figure 1) in periods of reduced financial ability. The financial instrument (figure 1) may be issued as a debt obligation, an annuity contract, a certificate of deposit or other form. The instrument may be an obligation of an insurance company, bank, single purpose corporation, a trust or other entity.

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METHOD AND APPARATUS OF CREATING  
A FINANCIAL INSTRUMENT AND ADMINISTERING  
AN ADJUSTABLE RATE LOAN SYSTEM

TECHNICAL FIELD

5 This invention relates to financial management systems and, more specifically, to data processing methodology for effecting an improved adjustable rate loan structure for financial institutions.

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DESCRIPTION OF THE PRIOR ART

A number of financial management systems have been proposed in the past. Exemplary systems include U.S. Pat. Nos. 4,232,367, 4,633,397, 4,648,038, 4,742,457, 4,752,877,  
20 4,766,539, 4,839,804, 4,876,648, 5,083,279, 5,101,353, 5,148,365, 5,210,687, and 5,237,500. However, such prior systems address substantially different problems and accordingly, are significantly different from the adjustable rate loan system of the present invention.

25 There exist a variety of formats under which money is transferred from one party to another. Two primary considerations in these transactions are: i) if, when, and how will the money be returned; and ii) the compensation for the use of the funds. The transferring party must also consider  
30 its ability to sell, mortgage or assign its position in the instrument acquired.

*Common Equity* - Purchasing common equity shares in a corporation places the transferring party in a position of ownership, but not necessarily control. Money transferred is  
35 not likely to be returned, unless the corporation is liquidated or the parties agree to allow the corporation to repurchase the shares. The compensation for use of the funds

is the transferring party's proportionate share of the net value of the company and any dividends. As to the transferring party's ability to sell, assign or mortgage the shares; if the company is publicly traded, this will be less  
5 difficult than if it is privately held.

The transferring party is subject to the risk of a total loss of investment. In a privately held company, the transferring party is exposed to such risks that would cause the value of the company to diminish. Such party must  
10 generally be prepared to accept these risks for a long period as the shares are not easily marketable.

To create share liquidity, improve market values and attract new shareholders, companies often go public. If the company is publicly traded, additional market risk is present  
15 as the value of shares may be influenced by market sentiment or other factors which do not affect the underlying performance or book value of the company. Thus to reduce the long-term risk of holding an equity position, the transferring party assumes market value risk if the shares are publicly  
20 traded. The party may also receive additional compensation in the form of market gains on shares attributable to market sentiment, as opposed to the performance of the company.

For the corporation, common equity is often the most expensive source of funding when profits are substantial and  
25 the least expensive when marginal or sustaining losses.

*Preference Equity* - A preference equity position often provides an annual stated revenue stream, an option by the holder to convert to common shares, the ability of the corporation to redeem the shares, and a senior position in a  
30 liquidation. For the transferring party, the possibility of annual compensation is increased, but the holder remains subject to the risk of the performance of the corporation. For the company, this format may provide additional funding which may be subsequently reduced through share redemption.  
35 Payment of an annual preference dividend is generally out of net profits, so the corporation's commitment to pay often remains subject to profitability. Again, the transferring

party continues to be subject to the risk of the company's underlying business performance on an annual basis.

*Convertible Debt* - For the transferring party, in addition to obtaining a priority claim over equity in the event of a liquidation, return of monies transferred (principal) compensated by an annual payment or accrual of fixed compensation (interest) may be reasonably assured. Since the rate of interest is generally below current market rates at the time of the original transaction, additional compensation is provided in the form of an option to convert to equity at a stated price. To the extent the value of the company's shares increase, the value of the option increases, thereby generating additional compensation.

This instrument has historically been viewed by some to be somewhat similar to preference equity, except carried as a debt instrument. For example, instead of being a \$100 preference share, with a four (4%) percent annual dividend, convertible to a common share at \$100, a convertible debt instrument might be a note with a \$100 principal balance bearing four (4%) percent annual interest, convertible to one common share for \$100.

For the transferring party, this instrument is tantamount to paying the company the difference between the interest rate received and the current rate which could otherwise be earned on an equivalent credit for the right to purchase common shares of the company in the future for a predetermined price.

For the company, this arrangement provides a lower annual fixed cost of money, however results in a dilution of value to other equity holders if the value of the company's shares subsequently increases and the convertible debt is exchanged for equity.

*Fixed Rate Debt* - This involves the transferring party ("lender") and the accepting party ("borrower") agreeing when the principal will be returned, the rate at which interest will accrue, and when it will be paid.

The lender's compensation is fixed and not determined on the basis of profitability of the enterprise, other than as it

relates to the borrower's ability to meet its obligations. In a liquidation, the lender has a preferred position over equity, and will often have priority rights to certain assets and cashflows.

5 Lenders in accepting fixed rate debt instruments must anticipate the effects of inflation, changes in the credit quality of the borrower, variability of market interest rates and liquidity on the future cash flow characteristics and value of a loan. Traditionally, lenders compensate for the  
10 uncertainties in the interest rate charged on the loan. This rate includes what the lender feels may be the level of inflation during the term of the loan, compensation for credit and default risks, as well as liquidity risk.

For example, an investor purchasing a 30 year noncallable  
15 government bond priced to yield 7% is accepting a yield which represents the market's current assessment of reasonable compensation for a 30 year term, including compensation for future inflation. Since the obligation is of the highest credit quality and highly liquid, little if any additional  
20 "premium" is added to the interest rate. On the other hand, a government note maturing in 1 year, priced to yield 4%, suggests the short-term outlook for inflation is less than over a longer period of time.

An "A" rated 30 year non-callable corporate bond, might  
25 be priced to yield 8.5%. The additional 150 basis points (100 basis points equal 1%) over the interest rate of a comparable government obligation compensates the investor for increased credit risk and less liquidity (marketability). If the current inflation rate is 1.5%, the investor might consider  
30 the real rate of interest on an "A" rated 30 year non-callable corporate debt obligation is 2.5%, premium for future inflation representing 4.5%, with credit and liquidity premium at 1.5% for a total annual yield of 8.5%.

If interest rates on long-term government securities  
35 subsequently increased to 9%, "A" rated corporate obligations might be priced to yield 10.5%. At that point, the investor holding the original security, would not be adequately

compensated for inflation, credit or liquidity risks on the basis of then current market indices. Conversely, if the long-term government securities rate dropped to 5%, with the "A" rated corporate rate at 6%, the investor would be  
5 overcompensated during such period. The investor may be required to recognize these changes for financial reporting purposes. An increase in interest rates may result in a loss on the carrying value of the security. A decrease in interest rates may result in a gain in market value, but some long-term  
10 fixed rate instruments are callable and thus a decrease in rates often results in early repayment by the borrower.

For borrowers, long term fixed rate callable debt obligations provide the opportunity to borrow at long term rates which might become inexpensive compared to the market if  
15 rates rise, while allowing early repayment if rates fall. This type of loan is not very attractive to lenders. Unless the borrower is an excellent credit or the interest rate on the obligation is extremely high compared to the market, it is less likely the credit markets will accept callable long-term  
20 fixed rate debt from such a borrower. If the debt is non-callable the borrower risks the possibility of comparatively more expensive financing if rates fall.

*Variable Rate Debt* - The transferring party ("lender") and the accepting party ("borrower") agree when and the terms  
25 under which principal will be repaid, as well as an index to be used to determine the rate at which interest will periodically accrue, and when it will be paid. These instruments may be issued on a short-term or long-term basis.

One such long-term alternative mortgage instrument is the  
30 adjustable rate mortgage, or ARM, which allows for periodic adjustment of payments to compensate for what the lender feels will be the inflationary effect on the loan during the upcoming period. For example, a typical ARM is indexed to a standard interest rate such as a particular bank's prime rate  
35 or six-month Treasury bill average. These loans are generally repayable by the borrower.

For the lender this type of loan is viewed as a shorter term loan due to prepayment histories. If rates are low, these loans can be attractive to lenders, in that if rates rise, compensation increases. Conversely, they are less attractive in a high rate environment, particularly if the lender believes rates will decline.

Other than ARMS, the variable rate instrument is generally not a long-term instrument and when it is, it has generally been callable on a periodic basis by the lender, as in the case of many single premium deferred annuities. These instruments often have a rate established each year by the insurer. If the holder ("lender") is not satisfied with the rate or is concerned about the credit quality of the insurer, they generally can redeem (call) the instrument and receive their funds, less a penalty.

The variable rate instrument usually compensates the lender for use of the funds on the basis of current market rates. For example, using a one year U.S. treasury rate of 4%, a short term loan to a highly rated credit might be 4.75%, representing a 75 basis point "premium" for credit and liquidity risks. Again, looking at a 30 year treasury bond yielding 7%, we see 300 basis points per annum of compensation to fix the rate for a long term. The lender accepts the lower rate today, which is the market's perception of appropriate compensation for the credit and inflation risks to which the lender is currently exposed. In renewing the loan, the lender can increase the rate based on new market conditions, but may also be able to add an additional "premium" to compensate for any increased credit risk.

If the variable rate instrument is a non-callable long-term loan indexed to short term interest rates, it limits the lender's future reinvestment alternatives, and may not provide adequate compensation, in that the lender might be able to receive similar compensation for making shorter term loans. For the borrower, such a loan just assures availability of money in future years, leaving the borrower subject to varying



cost of funds, which would generally be higher than the borrower simply accessing the short-term market.

Under the prior art, numerous debt and equity instruments, along with various derivative securities, have developed between parties transferring monies and those accepting it which have complicated the analysis of risk exposure and its appropriate compensation. For instance, some insurance companies have issued variable annuities which simply involved the payment of return on the basis of an underlying investment portfolio. These look more like equity in a mutual investment fund than a debt instrument paying interest. Other insurers have designed single premium deferred annuities or guaranteed investment contracts which pay a guaranteed rate of interest, along with an additional annual amount being a portion of their divisible surplus. It could be argued that the monies transferred should be bifurcated and viewed as a fixed rate debt instrument, and an equity share participating in a portion of the profits of the company. These instruments have often attempted to shift investment risk to the party transferring the funds. Often the structure of these instruments was driven by regulatory or tax considerations, attempting to shift investment risk to a "debt holder". In some cases, they merely represent a means of transferring a portion of the lender's assets to a segregated account held by the borrower, to permit the lender to gain an accounting treatment advantage, booking the arrangement at cost rather than marking the assets to market.

Generally parties loaning money to an enterprise are compensated only through interest, except to the extent a capital gain is recognized on the sale of the instrument. This gain still emanates from the commitment of the borrower to pay interest at a predetermined rate in the future.

Debt holders are exposed to two primary risks: i) changes in interest rates during the life of the loan, and ii) the ability of the borrower to repay principal and interest.

It is imprudent to enter into a loan arrangement unless both borrower and lender are comfortable with the borrower's

ability to repay. However, this risk can be affected by changes in interest rates and other terms of the loan.

*Interest Rate Volatility* - To properly assess the risks of a particular loan, the lender and borrower must consider  
5 the use of proceeds and cost of funds.

If the lender has a fixed cost of funds, then a fixed rate long-term loan matched to its underlying source of funds may permit it to profit from a spread between its cost of funds and the rate on the loan. Increases or decreases in  
10 market interest rates are of no consequence to the lender. Any deterioration in credit or prepayment of the loan, however, could expose the lender to risk in its ability to compensate its source of funds or to meet certain future payment objectives, as in the case of a defined benefit  
15 pension plan.

For the borrower, a long-term fixed rate source of funds may be appropriate if the use of these proceeds allows it to generate a cash flow stream which is more than sufficient to repay interest and principal on the loan. The arrangement  
20 provides the borrower protection against increased financing cost if rates increase while foregoing reduced costs if interest rates were to decrease. A risk the borrower assumes in a non-callable fixed rate financing is that the purpose for which the loan proceeds was used does not produce the desired  
25 revenue or terminates prior to the maturity of the loan. If the borrower's capital and other revenues are insufficient to pay interest and principal on the loan to maturity, then credit quality may deteriorate increasing the lender's risk. This risk can be reduced for the borrower by permitting early  
30 redemption of the loan. Often the lender will require a prepayment penalty, call premium, and/or an increased rate of interest throughout the financing term. This option then becomes more appropriate for a lender with a variable cost of funds.

35 Risk for a lender with a variable cost of funds, or who bases investment performance on current market rates of

interest, can be managed and returns enhanced in a variety of ways.

A lender prepared to accept no significant risk in exchange for current market compensation will generally invest 5 in short-term government securities. Its return may be enhanced in three ways: i) extending the term for which its funds are employed; ii) accepting increased credit risk, and iii) accepting fixed rate interest. These options increase the risk to which the lender is exposed, but also provide the 10 possibility of increased return when viewed on an annual basis compared to interest paid on short-term government obligations.

For instance, a party transferring funds could purchase adjustable rate mortgages, whose interest rate is periodically 15 reset off the short-term treasury rate. This increased compensation results from both the extended term for which the funds have been committed and the increased credit risk over short-term government obligations. Other variable rate and inflation-indexed debt obligations provide a means of 20 transferring inflation and other exposures to a borrower. In effect, the market demands higher interest during periods of more inflation and economic uncertainty, causing variable rates to be reset higher to compensate investors.

Existing markets currently provide lenders a means of 25 reducing inflation rate exposure through varying maturities of debt instruments they purchase. A lender could invest in long-term government obligations. Under some interest rate scenarios, the interest on long-term obligations is significantly more than that of short-term obligations. This 30 increased compensation results from both the extended term for which the funds have been committed and accepting a fixed rate for the long-term government obligations. The lender might further increase potential compensation by accepting a corporate obligation, thereby adding credit risk to its mix of 35 exposures. If rates increase, the carrying value of these instruments can substantially decrease and may result in lower investment earnings when compared to short-term government

bonds. Of course, the converse may be true if interest rates decline. This risk may also be transferred through a fixed to floating rate interest swap contract or other form of derivative security. The cost, when combined with interest  
5 earned may be greater than current rates on short-term government obligations.

Liquidity is another method of protecting a lender from changes in inflation or interest rates, as well as economic uncertainty, by allowing a debt obligation to be sold.  
10 Specialized debt obligations, though, or those with deteriorating credit quality (which may result from the market's analysis of the impact of these changes on the obligor) may have limited liquidity and thus leave the lender exposed to these risks. Sometimes these risks may be  
15 transferred to an insurer through financial guarantee insurance. Generally this is available only for investment grade obligations, and is most often used for municipal government securities. Consequently, investors purchasing long-term corporate debt obligations must often bear the risk  
20 of deteriorating credit or liquidity, inflation and other risks without adequate compensation.

For users of funds, the optimum borrowing scenario may be that the characteristics of financial instruments issued by the borrowers match as closely as possible the characteristics  
25 of the objective being financed. When this involves fixed rate debt which may be prepaid, the cost of the financing increases and the availability of lender funds decreases.

In some instances, floating rate loans do not adequately match interest costs to revenue generated from the activity  
30 financed. In effect, interest cost becomes a variable to the borrowing enterprise. At certain levels, revenues may be insufficient to cover debt service. This can even create a spiral effect. For example, the borrower's cost of funds is tied to a variable market index. As interest rates rise, the  
35 borrower's cost of funds increases. If the financed activity does not produce additional revenues in an increasing rate environment, credit quality of the loan may deteriorate. In a

traditional context, the lender would require an additional interest "premium" to compensate for increased credit risk. This begins a spiral effect of putting more pressure on revenues, potentially exacerbating deteriorating credit.

5        Since repayment terms and compensation, in the form of interest, are determined when a debt obligation is issued, numerous external factors can subsequently change the economics of the transaction for both parties.

      The foregoing and other problems of the prior art are  
10 addressed by the present invention which addresses these problems for borrowers and lenders by providing a unique financial instrument and adjustable rate loan system designed to reduce exposures for both lenders and borrowers seeking a long term lending relationship.

15

#### SUMMARY OF THE INVENTION

      The system of the present invention comprises a method of creating and administering a long-term financial instrument and adjustable rate loan program which reduces risks to both  
20 borrowers and lenders.

      If a lender has funds which must be continually reinvested over a long period of time, its primary considerations are ultimate repayment and compensation for funds outstanding. The system administers a long-term lending  
25 relationship between a lender and a borrower which takes into account changes in market interest rates and the compensates or manages credit exposures, reducing transactional costs and increasing overall compensation to the lender.

      The system provides borrowers (issuing entity) the  
30 ability to more closely match interest payments to revenues generated from financed activities, while accelerating the obligation if financed activity revenues permit or interest rate movements benefit acceleration. For the borrower, the system attempts to create a flexible borrowing arrangement on  
35 a long-term basis.

      The present invention provides a means of assuring the borrower's ability to pay its contractual obligations under

the loan agreement. For the lender, the system is designed to provide a method of compensating the lender within a range above the rate on government securities of similar term to that remaining on the financial instrument. Only in an event  
5 which would increase borrower insolvency could the rate paid by the borrower be less than the rate on government securities of similar term. To compensate for this possibility, when the borrower's activities are generating profits, the system provides a means of increasing the rate of interest paid to  
10 the lender.

The system involves a process of identifying the project or activity to be financed, seeking lender support through the use of financial intermediaries, investment bankers and other professionals, then issuing a financial instrument through  
15 data processing means including input means, calculator means responsive to the formula and instrument terms and conditions, data storage means and output means by terminal screen and/or printing.

The present invention may include data processing for a  
20 novel form of relationship management links between various accounts each with one or more account entries established to assist the borrower in determining and managing its liabilities to the lender, marketing agents, financial intermediaries, investment bankers, and others, as well as  
25 funds allocated to various projects, investments, risk taking activities, investment managers and custodians.

Upon issuance of the instrument, the system determines the present value of the principal, initial period interest, and minimum annual interest to be paid under the financial  
30 instrument, based on repayment terms, as well as current interest rates on non-callable fixed rate investment securities.

Based on such computations and other general considerations, several accounts are created on the books of  
35 the borrower using data processing systems or books and ledgers. As contemplated under the present invention, the

accounts are characterized as the *balance account*, the *payment account*, the *purpose account*, and the *computational account*.

To the balance account is initially allocated the principal component which is the initial cash balance of the investment. Annually, an interest component determined by multiplying the principal and accrued interest balance by the interest crediting rate is added to the balance account. Then, any interest or principal payment made during the year is deducted from the account, leaving the outstanding balance of principal and accrued interest due the lender.

The system initially allocates a sufficient portion of the principal component to the payment account which when compounded at assured interest rates, is sufficient to timely liquidate the initial period interest rate, the minimum rate of interest and the principal at maturity. Annually, an accrual component is added to the payment account, based on an interest rate established at inception. The account is further reduced by any payments of principal and interest made during the year.

The system may include one or more purpose accounts to which the remaining portion of the principal component is initially allocated. These accounts are used to track funds allocated to various risk taking, investment, and administrative activities. Annually, these accounts are adjusted to reflect gains and losses, reallocations, distributions, and other considerations affecting account balances.

Amounts representing gains on purpose accounts are annually added to the computational account. This account is used to determine the annual formula rate of the present invention. Each year, amounts credited to the computational account, along with certain pre-agreed adjustments which may include reallocation or amortization components, result in a balance which is divided by the year-end balance of the balance account. The resulting percentage is the formula rate.

Prior to issuance of the financial instrument, the borrower and lender agree the *minimum interest rate* which may be set annually by the borrower, in addition to the method of computing several contractual rates. After reviewing the purpose of the financing, the borrower and lender agree a *maximum rate cap*. This is an interest rate at which the financed activity would experience difficulty in repayment if sustained for a prolonged period; and provides adequate compensation to the lender if rates substantially increased.

10 The next rate is the *remaining term government rate* which is the current interest rate on a fixed rate government security of similar term. The remaining term government rate is the preferred external benchmark rate though other rates may be used as benchmarks in the practice of the present invention. The remaining term government rate is the rate a government security i.e. U.S. government bond is yielding depending on the year remaining to maturity. For example, a 30-year U.S. treasury bond with 15 years to maturity may have a rate of 7.5% while a 30 year bond with 25 years remaining

20 might have a higher rate. Finally, there is the *maximum annual rate* which is determined by adding an agreed number of basis points set at issuance to the remaining term government rate and represents the conditional maximum rate of compensation to the lender.

25 Each year the system compares the formula rate to these contractually determined external market rate data. If the formula rate exceeds the lower of the maximum rate cap or the maximum annual rate, then the rate for the coming year will be set at the lower of the three rates. If the formula rate is

30 above the remaining term government rate, but below the lower of the maximum rate cap and the maximum annual rate, then the borrower must set the annual adjustable interest rate for the coming year above the formula rate and below the lower of the maximum rate cap and the maximum annual rate. If the formula

35 rate is below the remaining term government rate, then the borrower will attempt to establish the annual adjustable interest rate at or near the remaining term government rate



based on various pre-agreed conditions, unless to do so would substantially reduce the overall credit of the borrower. In no event would the borrower set the annual adjustable interest rate below the minimum interest rate.

- 5        Payments to the lender are principally based on the remaining term government rate as modified by the terms of the loan agreement are herein described. Such government term rate is inputted into the system each year or other period so that the return to the lender continues to reflect market
- 10 rates for fixed rate government instruments of similar maturity. Preferably, such rate input is made at the end of the period when performance during the period is computed to determine the ranges of payments that the lender may receive in accordance with the loan instrument. The financial
- 15 institution, acting through its board of directors, management or other decision-making group, then determines the specific payment to be made.

- Once established, the system of the present invention projects the amount of interest accrued at the end of the next
- 20 year, based on the newly determined annual adjustable interest rate and the maximum balance in the balance account for the coming year. It then discounts the prospective interest balance based on current government interest rates for the period. This discounted value less interest amounts accrued
- 25 in the payment account is added to the payment account and deducted from the computational account.

- If the resulting computational account balance is negative, then additional amounts may be deducted from the purpose accounts or advanced from other sources by the
- 30 borrower. The computational account records advances by borrower from other than purpose accounts as notional advance balances. If the resulting computational account balance remains positive, then the borrower will reallocate said amounts to the purpose accounts or as otherwise provided in
- 35 the original terms of the financial instrument. In any event, at the end of the computational process, the computational account balance is reset to zero each year.

At the end of each period, the borrower may transfer from the administrative account a percentage of the principal or other annual amount. Except for such amount, all monies earned or accumulated in the accounts are not withdrawn until 5 the maturity date or earlier acceleration. Monies in the purpose account during the life of the loan provide security to the lender in that such funds are there to assure payment of annual interest.

The system of the present invention also monitors and 10 projects the affects of changes in interest rates on the financing. The system discounts the payment account by the current interest rate for government securities of similar term. It then computes the minimum requirements to accelerate the financing, to determine if acceleration is an option.

15 Generally, the instrument is issued with one of two acceleration options. One involves the lender having received a pre-agreed interest rate over the period. This may be a specific interest rate for each period, or one determined by adjusting the remaining term government rate for each period 20 by an agreed number of basis points. Under this option, the system determines whether payments, including principal and accrued interest to be paid on acceleration, have provided the agreed return. If less than the computed rate has been paid, an acceleration "premium" is paid by the borrower to enhance 25 the lender's interest return.

The second option involves acceleration of a significant portion of the financial instrument. This portion, in some instances, may be accelerated without regard to previous interest earnings. Such an acceleration would result in a 30 reduction of the balance account by the percentage of the financial instrument accelerated. The payment account would be recalculated to an amount sufficient to liquidate the remaining liabilities in the balance account. The amount subject to transfer from the payment account is then 35 recalculated at the current remaining term government rate. This revised amount is then reallocated to the purpose account(s) or in such other manner as provided in the

financial instrument. Such an action will generally result in increased interest earnings credited to the remaining portion of the financial instrument in future years.

The system of the present invention may rely on data processing means to determine annual and more frequent balances in each of the accounts and the components thereto. By varying the manner in which each respective component in the system is accrued or reallocated, the cashflow characteristics of various accounts can be significantly altered to fit the respective objectives of the borrower and lender.

The present invention addresses many of the problems of the prior art. For the borrower, it establishes a maximum rate of interest for the financing, which the financed activity is projected to be capable of sustaining for a reasonable period. It provides the borrower the ability to potentially pay lower interest rates if rates decline. It also allows the borrower to accelerate the financing if rates decline significantly or the financed activity generates sufficient revenue to accelerate repayment.

A lender's primary risks are: i) changes in interest rates during the life of the loan, and ii) the ability of the borrower to repay principal and interest. It can enhance its return through extending the term for which its funds are employed; accepting increased credit risk, and accepting fixed rate interest.

The present invention reduces a lender's exposure to changing interest rates through annual adjustments to the interest rate. It enhances the borrower's ability to repay principal and interest through assuring repayment of principal and a minimum rate of interest, thereby reducing credit exposure to the borrower. The lender's compensation is enhanced through a long-term lending relationship with the borrower, thereby reducing transaction costs. In many ways, it is similar to a long-term commitment to annually renew the loan. For this long-term commitment the lender is generally expected to receive interest at an annual rate exceeding the

remaining term government rate for securities of similar maturity. Thus the lender's compensation adjusts to reflect changes in inflation and other risks which affect market interest rates.

5       The borrower's solvency with respect to a particular contract is decreased and/or its credit quality deteriorates when the revenues generated by assets in the borrower's purpose accounts dedicated to such financial contract and other assets assigned to such contract are insufficient to  
10 meet payments based on an interest crediting rate set at the minimum target rate.

In exchange for allowing the borrower to reduce interest payments if its financial condition with respect to the business activity financed deteriorates thereby increasing  
15 solvency and credit quality, the lender otherwise receives above market interest. In the event interest rates decline or the borrower otherwise determines acceleration of the instrument to be of benefit, the lender gains through increased interest.

20

#### BRIEF DESCRIPTION OF THE DRAWINGS

These as well as other features of this invention will be better appreciated by reading the following detailed description of a presently preferred exemplary embodiment  
25 taken in conjunction with the accompanying drawings of which:

FIG. 1 is an overall schematic for implementing the adjustable rate loan system;

FIG. 2 is a diagram for determining the annual interest crediting rate;

30       FIG. 3 is a diagram for re-employing funds within the system if they exceed the amount necessary for the subsequent year's interest requirements; and

FIG. 4 is a schematic of an acceleration option.

#### 35       DETAILED DESCRIPTION OF THE PREFERRED EMBODIMENTS An Overview of the System

R ferring now to FIG. 1, there is shown in overall scope an operational flow chart for implementing the adjustable rate loan system of the present invention. As therein depicted, the broad aspects of the system include an adjustable rate  
5 financial instrument; various computational accounts including a balance account, a payment account, one or more purpose accounts, and a computational account; a lending institution; a borrowing institution; and an account management data processor.

10 In the most basic embodiment of the present invention, the borrowing institution receives funds in exchange for the financial instrument, which are allocated first to the computational account then to the payment account and various purpose accounts. Funds allocated to the payment account are  
15 available to pay principal, initial interest and a minimum rate of interest on the financial instrument. Funds allocated to purpose accounts are generally used for risk taking and investment activities. Additional amounts are periodically reallocated to the payment account for annual interest. The  
20 financial instrument is designed to assure the repayment of principal and an annually adjusted rate of interest in excess of the rate on government securities of similar maturity.

Determination of annual interest to accrue for each subsequent year is partially implemented by the account  
25 management data processor. The data processing system provides three primary functions: i) instrument and account setup, ii) annual servicing, and iii) acceleration monitoring.

While data processing system is preferred for use in carrying out the present method and system, alternative means  
30 may be used including telephone networks, facsimile machines, automatic typewriters, and other known office equipment and means for recording and storing information, for displaying such information, and for communicating information rapidly including directly communication between offices.

35 The instrument and account setup function involves financial instrument issuance and account creation; computation and allocation of initial balances between the

accounts; and database functions processing and storing initial contractual terms and conditions. The annual servicing function involves the recalculation and establishment of the annual adjustable interest rate between  
5 contractually specified minimum and maximum interest rate adjustments; monitoring gains and losses allocated to various accounts including recording and storing an account list of current balance information and an asset position list; determination of payments made to the lender and other  
10 expenses; the determination of the accreting balance of the financial instrument, and recomputation of annual account balances. Finally, the acceleration monitoring function tracks changes in various interest rate indices as well as balances in various accounts to determine if it is beneficial  
15 for the borrower to accelerate the financial instrument, thus fully or partially repaying the lender's principal and/or accrued interest.

Characteristics of the individual accounts are tailored to meet the requirements of the specific financial instrument  
20 to which they are ascribed. However, the system of the present invention need not be limited to the above mentioned fundamental aspects.

In the preferred embodiment, an insurance company is the entity which adopts the system, for the purpose of issuing and  
25 servicing adjustable rate single premium deferred annuities or guaranteed investment contracts. Each guaranteed investment contract may be designed to support a particular type of risk taking and/or investment activity of the insurer. The insurance company may engage the services of various external  
30 analysts, underwriters, or investment managers, as well as its internal staff to manage funds to be allocated to the various accounts identified to the financial instrument. It may focus its risk taking and investment activities on one or more specific activities, projects, types of investment, or  
35 investment manager. It then uses financial intermediaries and other marketing representatives to contact prospective institutions (lenders) to purchase these guaranteed investment

contracts (financial instrument), for example a pension fund or an ther insurance company.

#### Instrument and Account SetUp

5

Prior to issuance of the financial instrument, the insurer and lender agree the principal balance and term, an initial interest period and initial interest rate, as well as a minimum rate of interest, compounding and interest rate  
10 crediting dates, and principal and interest payment dates. The interest crediting rate must be established annually by the insurer within a corridor of minimum and maximum contractually specified rate parameters.

The insurer and lender review the purposes for which the  
15 borrowed funds are expected to be utilized and agree to a procedure for periodic rate recomputation. The system determines the maximum benefit expected to be derived from the activity by the insurer and arrives at a maximum amount available for debt service. Based on the terms of the  
20 financial instrument, it computes a maximum rate of interest the insurer could sustain in a variety of interest rate scenarios. The insurer and lender then negotiate the maximum rate of interest the insurer would ever be required to set, referred to as the maximum rate cap. This would generally be  
25 a rate which the insurer is expected to be able to pay for a reasonable period of time, even if financed activity revenues were not sufficient to pay this rate, without seriously impacting the insurer's financial condition, resulting in credit deterioration.

30 The insurer and lender then agree a basis point adjustment to the remaining term government rate to compute the maximum annual rate. For instance, if the current rate on government securities of similar term to the financial instrument was 7% (remaining term government rate) and the  
35 agreed basis point adjustment being 275 bp (2.75%), the maximum annual rate of int rest would be 9.75% for that year.

They then go on to agree the minimum target rate which is generally the remaining term government rate, but may be modified with a basis point adjustment factor. For example, the lender may wish the minimum target rate to be 50 bp above the remaining term government rate. For this period, the minimum target rate would be 7.5% (7% plus 50 bp). This is a rate which the insurer must attempt to exceed in establishing the interest crediting rate on an annual basis. The insurer and lender would agree what additional sources of revenue or capital assets the insurer would allocate to increase the interest crediting rate above this minimum target rate. Only in an instance where the insurer's other designated revenues and assets were not sufficient to increase the interest crediting rate above this rate, would the interest crediting rate be set below this rate. This provision permits the insurer to lower the rate below the minimum target rate if its financial condition would not otherwise permit establishing the higher rate. Again, it is designed to maintain insurer solvency. The alternate benefit for the lender is that the interest crediting rate will generally always be set above the remaining term government rate, which in effect initially provides a long term financial instrument with an adjustable rate tied to long term government rates.

Finally, the insurer and lender agree the method of computing the formula rate including the computational parameters of the formula. Generally, this will involve deducting the value of one or more purpose accounts at the previous computational date from the value on the current computational date. This amount may then be increased or decreased through agreed amortization or reallocation adjustments. The result is then divided by the projected balance of the financial instrument on the next interest crediting date, resulting in a percentage which is the formula rate for the coming year.

The insurer and lender then agree that the insurer will reestablish the interest crediting rate each year on the interest crediting date, which, in effect, resets periodic



comp nsation. If the formula rate exceeds the maximum rate cap r the maximum annual rate, the insurer cov nants to establish the n w rate at the lower of the three rates. If the formula is below the minimum target rate, the insurer  
5 contracts to use its best efforts to establish the rate at or above the minimum target rate, but agrees that under no circumstances will the rate be set below the minimum interest rate. If the formula rate is above the minimum target rate and below the maximum rate cap and the maximum annual rate,  
10 then the insurer agrees to establish the rate between the lower of the maximum rate cap and the maximum annual rate, and the formula rate.

Terms of acceleration or premature termination of the financial instrument are negotiated. Since the financed  
15 activity may terminate prior to the maturity date of the financial instrument, interest rates may affect the long-term cost of the financing, or a variety of other factors may change; the insurer negotiates the conditions under which it can prepay the lender. Prepayment may involve increased  
20 transaction costs for the lender in having to re-employ the funds. Acceleration will generally involve one of two options, although other conditions could be agreed between the parties. For instance, the insurer may be prohibited from accelerating for a minimum term, such as five years.

25 First, the insurer could agree to pay an acceleration "premium" if the interest crediting rate in each prior year was below an agreed minimum. For instance, the insurer may agree that the lender will receive a minimum of 250 bp over the remaining term government rate for each year. If the  
30 interest crediting rate was below this minimum in any previous year, based an agreed formula, an acceleration premium would be calculated to bring the lender's yield on the financial instrument over the term to 250 bp over the remaining term government rate for each year.

35 Another option involves the insurer being restricted to acc lerating only a perc ntage of the financial instrument. For instance, the insurer may be able to prepay 80% of the

financial instrument. This option may allow the insurer to sell a portion of its securities supporting the financial instrument at a substantial market profit if interest rates declined. To the extent these gains above repayment of  
5 principal and interest were reallocated to the purpose accounts, the formula rate in future years would likely increase for the remaining outstanding balance of the financial instrument.

Upon agreement of the aforementioned terms and conditions  
10 and input of this data, the data processing system generates various accounts on the books of the insurer and an adjustable rate financial instrument which guarantees return of principal and payment of an adjustable rate of interest over a specified period of time. The financial instrument may be issued in any  
15 amount and currency as a debt obligation, an annuity contract, a guaranteed investment contract, a certificate of deposit, a note or other form. It may be an obligation of an insurance company, bank, single purpose corporation, a trust or other entity.

20 In general, four basic types of accounts, represented by the designations "balance", "payment", "purpose" and "computational", are contemplated under the present invention.

In their most basic embodiment, balance accounts include those accounts to which the original principal component is  
25 added, along with annual interest components as they periodically accrue, less payments made to the lender. Generally, reductions in amounts allocated to a balance account will consist of the retirement of the entire principal at the end of the term of the instrument. The annual interest  
30 component, on the other hand, is retired as it accrues at each iteration period, or a portion may be retired and the minimum interest portion accrued. If the interest component is annually paid, this results in an instrument having cash flows closely resembling those of a "conventional" certificate of  
35 deposit or bond ("conventional" referring to payment of a fixed rate of interest) with the difference that interest payments will vary based on the adjustable rate established

ach year by the insurer. In either case, the cash flow characteristics of balance accounts can be characterized generally as low during the term of the instrument, with a large payment at the end. However, other principal and  
5 interest retirement schedules are possible within the balance account framework, and cash flows could be accelerated through earlier payments of a portion of the principal and/or accrued minimum interest.

To each payment account is originally allocated the  
10 present value of the principal component, initial interest component for the initial compensation period, and minimum interest components, discounted at then current interest rates for government securities of similar term. Periodically, these amounts are increased by accrual at the prescribed  
15 interest rate, being the discount rate, as well as annual additions to the interest component, less payments made to the lender.

Each financial instrument may have one or more purpose accounts identified to it. To these accounts are originally  
20 allocated one or more purpose components. These may be used to finance one or more specific activities of the insurer, including the payment of certain future custodial, administrative, and professional costs and may include marketable securities, evidences of ownership or other  
25 financial instruments including, of course, short term rates and bills and cash. It is also contemplated that purpose accounts may at times include non-liquid and nonmarketable instruments. These accounts are annually adjusted to reflect gains or losses on financed activities, and other amounts  
30 expended.

Finally, computational accounts are used by the system to initially allocate amounts between the payment account and the purpose accounts, and annually to determine the formula rate, and once the adjustable rate for the coming year is  
35 determined, to rebalanc the various accounts, completing the cycle with a balance of zero.

The system then allocates various original balances to each of the accounts at the time of issuance. In particular the principal component is allocated to the balance account. To the computational account is added the principal component  
5 allocated to the balance account less an amount determined by discounting at current government securities rates, the principal balance, initial interest component, and minimum interest components, which is allocated to the payment account. The difference, less certain agreed transactional  
10 expenses are then allocated to one or more purpose accounts, including an amount for future custodial, legal and administrative costs. The computational account balance at the end of the allocation process returns to zero.

15      *An Example*

An insurer issues a \$ 1,000,000 financial instrument for a 20 year term, described as a guaranteed investment contract to be booked as an adjustable rate debt obligation. Its  
20 initial period interest rate is 8%, with the initial period being one year. It agrees to compound interest annually and adjust the interest rate prospectively on December 31 of each year, but will not set it below a rate of 4%. It further agrees to repay principal at maturity in 20 years, to accrue  
25 the minimum interest component (4%) to be paid at maturity, and to pay that portion of the annual interest component which exceeds the minimum interest component annually, on December 31.

To arrive at the minimum and maximum contractually  
30 specified rates from which the interest crediting rate is determined, the insurer reviews projected cash flows from its proposed financing activity. For illustration purposes, we assume the insurer will acquire certain types of municipal equipment, such as computers, police cars, and other necessary  
35 equipment to be leased to municipal governments on a tax exempt basis. If the funds are fully deployed and property/liability losses, as well as expenses kept to a

minimum, it expects to earn 13-15% per annum. In addition, as an insurer, it may derive certain tax advantages from the transaction. Because the leases are generally short-term, if interest rates increase the insurer will be able to increase its return on these leases somewhat. Based on these factors, possibly in consultation with the potential purchaser of the financial instrument (lender), it determines it could pay a rate of 13% interest for a period of time should rates substantially increase. It therefore sets a maximum rate cap of 13% on the instrument. In effect, the interest crediting rate could never exceed 13%. In purchasing the instrument, the lender makes a decision that such a rate would provide it sufficient compensation during such a high rate period, when compared with its cost of funds or other investment objectives.

As previously assumed, the remaining term government rate at inception, i.e., the 20 year treasury bond rate, is assumed at 7%. The insurer and lender agree the annual maximum rate will be established at 275 bp (2.75%) over the remaining term government rate. At inception that would be 9.75%. This rate represents the maximum rate which could be established in any given year. For instance if the remaining term government rate declined to 5%, then the annual maximum rate for the year would be 7.75%. Thus, the annual interest on the instrument could be established at rates up to 7.75%. On the other hand, if the remaining term government rate increased to 11%, with the annual maximum rate at 13.75%, the maximum rate cap of 13% would govern, with annual interest established at no greater than 13%.

The insurer and lender then agree the minimum target rate. Again we assume a 50 basis point augmentation to the remaining term government rate. At issuance, that rate would be 7.5%.

The method of computing the formula rate is then agreed. For illustrative purposes, we assume the lender requires all lease revenue, salvage recoveries and interest to be allocated to the purpose account, less the cost of equipment and the

insurer's annual expenses up to an annual maximum cap. In many ways, the agreement acts like a standard loan covenant. Annual net gains are then to be allocated to the computational account. These gains are then subdivided within the

5 computational account. For instance, the lender may require the insurer to set aside a sufficient portion of these amounts to permit it to establish the next period's interest crediting rate at no less than the minimum target rate. Any portion

10 above this amount may then be split between amounts allocated to increasing the interest crediting rate, amounts reallocated to the purpose reserve, and amounts allocated to the insurer. In this example, it is assumed that of this remaining portion, the insurer will be permitted to deduct amounts including

15 interest sourced from other than financed activity funds. Thereafter, the remaining portion might be divided as follows: funds representing up to 4% of the current principal and accrued interest balance of the financial instrument, reallocated to purpose accounts, at the discretion of the

20 insurer; 75% of the remaining portion attributable to the adjustable yield computation; and the balance subject to allocation to the insurer or reallocation to the purpose accounts, at the discretion of the insurer. The effect of reallocations to the purpose account is to increase the

25 collateral and earnings support for the loan. In the event insufficient amounts are allocated to the computational account to allow it to establish at least the minimum target rate, the insurer agrees to reallocate amounts from the purpose account, subject to maximum draw down amount or

30 provide additional amounts from other revenue sources or liquidation of a portion of its capital assets, all as agreed with the lender.

Finally, the insurer and lender agree the acceleration option. For illustration purposes, it is assumed the lender

35 requires a minimum yield of 250 basis points over the remaining term government rate for each year the instrument is

outstanding, and that it may only be accelerated on December 31 of each year.

Th above information is inputted into the data processing system through an appropriate input device to be stored in the system's database. The system then creates on the books of the insurer the following described accounts, making various computations and creating initial balances for each account.

Upon creation of the balance account, the system establishes its opening balance at \$1,000,000.

It then allocates an opening balance of \$1,000,000 to the computational account. Accessing a current government securities interest rate matrix stored within the system, it determines the appropriate discounting interest rates and terms based on the payment dates established for repayment of principal and payment of the initial interest component and the minimum interest component. To illustrate, it is assumed the one year government securities rate is 5% and the 20 year rate is 7%. The system then computes the discounted value of these required payments in a three step process:

- a) the principal component of \$1,000,000 is discounted for 20 years at 7% producing a discounted present value of approximately \$258,419;
- b) the initial period interest rate is 8%, producing a first year interest payment in 12 months of \$80,000 ( $\$1,000,000 \times 8\%$ ), which when discounted at the one year government securities rate of 5%, results in a discounted value of approximately \$76,190; and
- c) the minimum interest component to be paid at maturity is computed by compounding the principal component for 20 years at the minimum interest rate (4%) resulting in a future value of approximately \$2,191,123, from which is deducted the principal component of \$1,000,000, leaving the minimum interest component of \$1,191,123, which is then discounted at the 20 year government securities rate

(7%) to produce a present value of approximately \$307,809.

Taken together the present value of the repayment of principal, initial period interest and minimum interest is approximately \$642,418. These individual amounts are deducted from the computational account and allocated to the payment account.

The system then creates a purpose account for the purpose of reserving future custodial, professional, and administrative costs. An annual basis point adjustment is determined and applied against a projection of outstanding instrument balances from the balance account. These amounts are then discounted to a present value basis based on the long-term government securities rate or other method. This present value amount is then deducted from the computational account and allocated to the administrative purpose account.

Any transactional costs, including intermediary and investment banking fees, legal fees, rating agency costs, certification expenses, and other acquisition costs are then deducted from the computational account.

Finally, the remaining computational account balance is allocated to one or more purpose accounts. Specific risk taking and investment objectives, parameters, and restrictions are established for each account.

25

#### Annual Servicing

Referring to FIG. 2, is shown a flow chart, adaptable to data processing, for servicing the various accounts.

30 In establishing the first year's computations, the system begins with the balance account. From the date of issuance of the financial instrument, it determines the amount of interest to be added to the balance account, taking into consideration the original balance allocated, computed at the initial interest rate, for the period from issuance to interest crediting date. This amount is added to the balance account, arriving at a new financial instrument balance. The system



performs the same computation on the original balance, substituting the minimum interest rate for the initial interest rate (1). Under our example, the difference between these two results is the amount to be paid on the interest crediting date by the insurer. Some instruments may be issued with other interest payment and deferral terms, which the system computes and tracks. The original principal balance plus any accrued, unpaid interest on the interest crediting date is the new financial instrument balance. Each year thereafter is computed in a similar manner, substituting the initial period interest rate (after the initial interest period) with the rate established at the beginning of the year by the insurer.

On each interest computation date, the system determines the balance of all purpose accounts, less the respective balances from the previous year (2). The administrative purpose account is not included in these computations. The difference in these amounts is then allocated to the computational account, reducing the balances in the respective purpose accounts to their previous year's balance. The balance in the administrative purpose account may be reduced by a predetermined amount representing annual fiduciary, custodial and administrative expenses.

On each interest computation date, the system determines the minimum target rate, then calculates the amount of interest necessary to distribute this rate, less the minimum interest rate if appropriate, on the interest crediting date subsequent to the next interest crediting date. This amount is then discounted by an appropriate government securities rate for the computed term, to determine the present value the insurer must set aside to be able to establish the minimum target rate on the next interest crediting date, and pay the said interest, less accrued minimum interest if applicable, on the next subsequent interest crediting date (3).

From the amount allocated to the computational account on the interest computation date, the present invention then deducts this present value result. If funds remain, then the

system applies various allocations of any remaining amounts. If the insurer had previously advanced funds into the accounts to make up prior year's shortfalls, it could recover some of these amounts at its discretion. Using the terms of our  
5 example, the system would then deduct 4% of the projected balance in the balance account on the next interest crediting date. Any remaining amount would then be reduced by 25% allocated out of the accounts as directed by the insurer, or reallocated to the purpose accounts at its discretion. All  
10 remaining amounts, including any further contractual adjustments, would be divided into the financial instrument balance on the next interest crediting date to determine the formula rate.

Based on contractual information retained in the  
15 database, the system then uses the previously agreed basis point modifier matched to the current interest rate matrix to compute the maximum annual interest rate. It then provides the insurer a report on this particular financial instrument containing the: maximum rate cap, maximum annual interest  
20 rate, formula rate, minimum target rate, and minimum interest rate. From this information the insurer then determines the interest rate to be established on the next interest crediting date.

Once the new interest crediting rate is determined and  
25 input in the system, the present invention then reviews the amounts allocated to the computational account and its previous computations within the computational account. It multiplies the newly determined interest crediting rate by the projected financial instrument balance for the next interest  
30 crediting date. It then computes the amount of interest to be paid on the subsequent interest crediting date by deducting any accrued minimum interest. This resulting interest payment amount is then discounted at an appropriate government securities rate determined from the current interest rate  
35 matrix for the intervening period to arrive at a present value amount to be allocated from the computational account to the

payment account which amount represents the present value of the discretionary excess interest for the subsequent period.

If the amount allocated to the computational account is less than this present value amount, the system determines the difference, then requests information from the insurer as to whether these amounts will be allocated from a different source and be added to notional insurer advance balance; or will be allocated from purpose accounts, and to what extent such allocations will be made within the various purpose accounts. Once determined, these allocations are made to the computational account.

If the amount allocated to the computational account is greater than the present value amount (Fig. 3), the system then reallocates the remaining amounts to the purpose accounts or deducts them from the account as previously agreed. At the end of the computational process the balance of the computational account is returned to zero.

Finally, within the payment account, the system subdivides accreting balances between principal, minimum interest, and additional adjustable interest. Initially, the present value of the principal balance is ascribed to the principal subaccount, the present value of minimum interest to the minimum interest subaccount, and the present value of initial period interest to the adjustable interest subaccount. On each interest crediting date, these accounts are increased by the respective compounding rate established at issuance of the contract, which information is maintained in the system database. Annually, the system allocates from the computational account to the adjustable interest subaccount, the present value amount of the adjustable interest for the coming year, along with a compounding rate for said amount being added to the system database. On the interest crediting date, the system allocates payments of interest to the contractholder from the payment account's adjustable interest subaccount. If minimum interest is paid annually, it is also annually paid along with adjustable interest as one payment, being deducted from the minimum interest subaccount.

Otherwise minimum interest accrues until paid along with the principal payment on such date(s) as agreed. These payments are deducted from the minimum interest subaccount and principal subaccount, respectively.

- 5       At the end of the annual computational cycle, the balance account will reflect the outstanding liability of the insurer to the lender, being principal and accrued interest. The payment account will reflect the discounted value of determined payment liabilities, being principal, minimum  
10 interest, and adjustable interest established for the coming year. The purpose accounts will reflect revised balances, along with the computational account reset to zero.

#### Acceleration Monitoring

15

Data processing capabilities are supplied for displaying the effects of changes in current interest rates and increases in purpose accounts on the economics of the financing for the insurer.

- 20       This module of the system can provide both projective analysis given various interest rate scenarios, but is most useful in determining the effects of current interest rates on the financing.

On each interest computation date, this module applies  
25 current interest rates to the principal balance and minimum interest components as of the dates said amounts are to be paid, discounting them to the interest crediting date. The results are then compared to the current balances in the principal and minimum interest subaccounts of the payment  
30 account. If the amount is greater, then the system determines the acceleration method selected at issuance.

In our example, Fig. 4, the lender selected an acceleration "premium" option requiring an annual interest rate of 250 bp over the remaining term government rate. The  
35 system determines the remaining term government rate for each year since issuance, then applies the basis point adjustment. It then determines the adjustable rate of interest established

for each period. If the composite yield established over the period was less than 250 bp over the remaining term government rate, then the system computes an acceleration "premium" sufficient to bring the composite yield on the instrument for the period of time held to 250 bp over the remaining term government rate.

The current discount result is then combined with the current balance of the purpose accounts. If amounts remain after the system deducts the current balance account and any acceleration premium, it may be beneficial to accelerate the financial instrument. A decision to accelerate, results in a payment of amounts equaling the balance account plus any acceleration premium. The contract terminates and all accounts are allocated to zero, and deleted from the insurer's books of account.

If the limited acceleration option had been selected, a slightly different process is used. After determining the current discounted amount to be greater than the amounts allocated within the payment account, the system computes the effect of acceleration of the maximum amount permitted. For example, if 80% of the financial instrument could be accelerated, then the system would reduce the balance account by 80%. It would then reduce the respective subaccounts of the payment account by 80%. Of the excess computed from the difference between current rate discounting of final amounts and the balance of the payment account, 80% would be allocated to the purpose accounts, in a manner determined at issuance of the financial instrument.

This allocation would have the effect of increasing allocations from the purpose accounts to the computational account in future years. The database would contain information as to whether the prior year's original balance would be adjusted by the acceleration allocation on the interest computation date after acceleration, or whether that amount would be included as a part of the gain for the first year after allocation.

### Other Aspects of the System

The system also maintains a database with original parameters and restrictions for the allocation of amount  
5 within the purpose accounts.

Amounts ascribed to any particular activity are tracked, along with allocations made to various investment managers, risk taking professionals, custodians, fiduciary accounts, etc.

10 The system also tracks agreed fee levels, computing and deducting these amounts from the purpose accounts, or other accounts as appropriate.

It permits the borrower to obtain long-term financing and partially establish interest payments based on the results of  
15 its financed activities. It further assures parties providing funds to the borrower of a guaranteed return of principal, some minimum rate of interest and an annually adjusted rate of interest partially determined by current market rates and the results of the borrowers financed activities.

20 The invention also enhances the borrowing entity's ability to augment debt repayment through market interest rate movements. The system projects the effects of interest rate movements on the underlying value of the borrowing entity's assets identified to the financing. If such asset value  
25 increase significantly, the borrowing entity may elect to liquidate some, or all of such assets, repaying the debt early.

The means used for accomplishing the steps of the present methods and for operating the present system are those  
30 currently available to industry including telephones, computer networks, calculators, tickler systems, face-to-face negotiations, accounting techniques and computer processors of words and other data.

Portfolio management is the function of investing monies  
35 assigned to the payment accounts and subaccounts and purpose accounts to meet agreed-to investment objectives. For example, funds or proceeds allotted to payment accounts are

invested in high grade bonds to assure minimum commitments of compensation while monies in purpose accounts are, within the scope of guidelines and restrictions of the financial contract, invested to obtain higher yields including yields  
5 above the returns expected of U. S. government bonds.

One skilled in the art will appreciate that the present invention can be practiced by other than the embodiments described, which are presented for purposes of illustration and not of limitation, and the present invention is limited  
10 only by the claims that follow.

The foregoing invention has been described in terms of the preferred embodiments. However, those of skill in the art will recognize that many variations of such embodiments exist. Such variations are intended to be within the scope of the  
15 present invention and the appended claims.

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## WHAT IS CLAIMED IS:

1. A system of creating and administering financial contracts having terms and conditions which provide repayment  
5 of monies tendered by one entity to another on a date or dates in the future, along with periodically provided compensation thereon, said system comprising:  
means for issuing financial contracts which provide  
for the level of compensation thereon to be adjusted  
10 periodically to produce a rate of compensation tied to an external benchmark, allowing the issuing entity to establish a lower rate of compensation in any period in which its solvency or deteriorating credit quality, including with respect to the business activity to which the contract relates, is otherwise  
15 threatened in exchange for establishment of a higher rate of compensation during periods in which the results of a formula computation exceed certain pre-agreed levels.
2. The system of claim 1, comprising:  
20 contract negotiation means for the issuing entity and one or more contractholders to negotiate, which may include the use of intermediaries and service providers, the terms of financial contract(s) which provide for the level of compensation thereon to be adjusted periodically to produce a  
25 rate of compensation tied to an external benchmark, allowing the paying entity to establish a lower rate of compensation in any period in which its solvency or deteriorating credit quality, including with respect to the business activity to which the contract relates, is otherwise threatened in  
30 exchange for establishment of a higher rate of compensation during periods in which the results of a formula computation exceed certain pre-agreed levels.
3. The system of claim 1, comprising:  
35 restriction means of identifying a particular business activity, agreeing, recording and communicating the



terms under which funds received from the issuance of the financial contract(s) will be used by the issuing entity.

4. The system of claim 1, comprising:
  - 5 account establishing means for creating one or more accounts for the purpose of allocating the financial results of the issuing entity's business activities identified to the financial contract(s) and initially establishing and periodically determining its obligations to contractholder(s) 10 and service providers.
5. The system of claim 1, comprising:
  - rate establishing means of initially establishing the external benchmark used as a basis to reset periodic 15 compensation of the financial contract, establishing periodic rate parameters, and initially establishing the conditions under which the issuing entity could reduce periodic compensation of the financial contract to a level less than an amount determined by applying the external benchmark.
- 20 6. The system of claim 1, comprising:
  - recalculation means of determining the inputs based on such terms and conditions for recalculating the periodic compensation.
- 25 7. The system of claim 1, comprising:
  - prepayment means of determining, recording and storing at issuance the terms under which the issuing entity could partially or wholly prepay the financial contract during 30 its term.
8. The system of claim 1, comprising:
  - entering means for recording and storing contract purchase, contract terms and conditions, payment information, 35 current interest rate matrix, compensation and paying information, accel ration notice provisions, and other contract information and contractholder inquiries.

9. The system of claim 1, comprising:  
issuance means responsive to issuing financial contracts which provide compensation periodically determined by the issuing entity and accepting contract proceeds.
- 5
10. The system of claim 1, comprising:  
account allocation means for allocating contract proceeds to various accounts established at issuance of the financial contract, allocation of the issuing entity's  
10 obligations to contractholder(s) to one or more accounts, and determining account balances at issuance of the financial contract.
11. The system of claim 1, comprising:  
15 proceeds application means of selecting a portfolio of securities and/or application of contract proceeds to other business purposes.
12. The system of claim 1, comprising:  
20 asset position list means for recording and storing an asset position list of current balance information concerning application of contract proceeds.
13. The system of claim 1, comprising:  
25 reporting means for generating detail and summary data on initial terms of the financial contract(s) and the initial status of the issuing entity's assets and its contractual obligations to the contractholder.
14. The system of claim 1, comprising;  
30 account list means for recording and storing an account list of current balance information for each financial contract, account information and the accounts into which said issuing means has issued a financial contract.
- 35
15. The system of claim 2 of contract negotiation means, comprising:

means of recording and storing proposed contract terms, which may include the proposed date of transfer and amount to be tendered by prospective contractholder(s) to the issuing entity, the proposed amounts and dates of repayment by the issuing entity of such tendered amounts, the dates and method of determining payments of periodic compensation to contractholder(s) by issuing entity, any restriction(s) on use of contract proceeds, initial compensation period and rate of compensation, minimum rates of compensation, maximum rates of compensation, interest rate crediting parameters and formula computation methods, prepayment terms, and other proposed contract terms; and

means of communicating such proposed contract terms and other information between issuing entity, prospective contractholders, intermediaries and service providers.

16. The system of claim 4 of account establishing means, further comprising:

means of creating a plurality of accounts to serve the financial contract including one or more balance, payment, purpose and computational accounts.

17. The system of rate setting means of claim 5, comprising:

means of establishing an initial compensation period and an initial rate of compensation for such period.

18. The system of rate setting means of claim 5, comprising:

means of establishing the external benchmark as the periodic interest rate on government securities of similar term to the financial contract (remaining term government rate).

19. The system of rate setting means of claim 5, further comprising:

means of establishing an adjustment factor including basis point adjustment to augment or diminish an externally determined periodic rate, said resultant periodic value being the external benchmark for the purposes of determining  
5 periodic compensation under the financial contract.

20. The system of rate setting means of claim 5, further comprising:

means of establishing a minimum periodic rate of  
10 compensation.

21. The system of rate setting means of claim 5, comprising:

means of establishing a conditional maximum rate of  
15 compensation during any specific period by way of augmenting the external benchmark by a pre-agreed number of basis points (one hundred basis points equalling one percent).

22. The system of rate setting means of claim 5, further  
20 comprising:

means of establishing a maximum rate of compensation for all periods during the life of the financial contract.

23. The system of rate setting means of claim 5, further  
25 comprising:

means of determining inputs to and computational parameters of a formula which gauges the solvency and credit quality of the issuing entity's periodic activities with respect to the business activities for which the contract  
30 proceeds are dedicated.

24. The system of recalculation means of claim 5, comprising:

means of recording and storing periodic dates for  
35 recalculation; and

means of recording and storing a procedure for periodic rate recomputation.

25. The system of claim 24, comprising:  
means of allocating and determining revenues and  
assets of the issuing entity, other than those assets  
identified to the financial contract to which its contract  
5 proceeds are initially applied, to the establishment and  
payment of periodic compensation.

26. The system of prepayment means of claim 7,  
comprising:  
10 means of recording and storing periodic dates on  
which the issuing entity could elect to partially or wholly  
prepay the financial contract; and  
means of recording and storing terms and conditions  
for periodic rate recomputation.

15 27. The system of prepayment means of claim 7,  
comprising:  
means of determining a minimum rate of periodic  
compensation to be paid to the contractholder if the issuing  
20 entity wholly prepays the financial contract prior to  
maturity.

28. The system of prepayment means of claim 7,  
comprising:  
25 means of determining a portion of the financial  
contract which may not be prepaid prior to maturity.

29. The system of issuance means of claim 9, comprising:  
means responsive to establishing the amount and  
30 currency of the contract proceeds transferred to the issuing  
entity, the maturity date of the financial contract, the  
initial compensation period, the rate of compensation during  
the initial compensation period, the currency in which the  
financial contract is denominated, the contract proceeds  
35 currency exchange rate if applicable, compensation periods,  
dates and terms under which periodic compensation will be  
accrued and paid, specific rat param ters and procedure for

determining periodic compensation, prepayment provisions, account drawdown provisions, payment procedures, and such other information as the issuing entity and contractholder(s) may agree.

5

30. The system of issuance means of claim 9, comprising:  
means of issuing the financial instrument as a debt obligation, an annuity contract, a guaranteed investment contract, a certificate of deposit, a note, a swap contract,  
10 or other form of financial instrument.

31. The system of issuance means of claim 9, comprising:  
means of issuing the financial instrument where the issuing entity is an insurance company, bank, single purpose  
15 corporation, individual, trust, mutual fund, investment company, partnership, limited partnership, or other incorporated or unincorporated entity.

32. The system of asset allocation means of claim 10,  
20 comprising:  
means of creating a balance account to which an initial balance is credited at issuance equal to the amount of contract proceeds.

25 33. The system of asset allocation means of claim 10, comprising:  
means of creating a computational account to which an initial balance is credited at issuance equal to the amount of contract proceeds.

30

34. The system of asset allocation means of claim 33, comprising:  
means of allocating from the computational account at issuance amounts payable to intermediaries and service  
35 providers;

means of allocating a portion of contract proceeds to one or more payment accounts; and

means of allocating part or all of contract proceeds to one or more purpose accounts.

35. The system of asset allocation means of claim 10,  
5 comprising:

means of creating a payment account to which amounts are periodically credited and payments to contractholder(s) are deducted therefrom.

10 36. The system of claim 35, further comprising:  
means of determining the present value at issuance of contract proceeds to be repaid at maturity, based on current interest rates for investment securities.

15 37. The system of claim 35, further comprising:  
means of initially allocating investment securities to such payment account which are invested at such current market rates of interest and are sufficient at their respective maturities dates to repay the initial contract  
20 proceeds of the financial contract.

38. The system of claim 35, further comprising:  
means of determining the present value at issuance of minimum periodic compensation to be paid on one or more  
25 periodic compensation payment dates in the futures, based on current interest rates for investment securities matching such payment date(s).

39. The system of claim 35, further comprising:  
30 means of initially allocating investment securities to such payment account which are invested at predetermined rates of interest and are sufficient at their respective maturities dates to pay the minimum rate of periodic compensation on the financial contract on one or more periodic  
35 compensation payment dates in the future.

40. The system of claim 5, comprising:

means of entering, storing, updating and communicating external market rate data used to determine the periodic external benchmark rate; and

means of entering, storing, updating and  
5 communicating the results of periodic rate formula, and maximum annual compensation rates.

41. The system of asset allocation means of claim 11, comprising:

10 means of identifying, recording, storing and communicating the specific investments, investment activities, or other purposes for which a portion of the contract proceeds are to be used, and the parameters under which the issuing entity will conduct such business activities;

15 means of establishing investment quality, currency and duration parameters for investment securities allocated to the payment account(s); and

means for restricting the use of profits generated from the investment of contract proceeds allocated to purpose  
20 accounts, to enhance the security and repayment of financial contract obligations, including increasing the level of periodic compensation.

42. A system of creating and administering financial  
25 contracts having terms and conditions which provide repayment of monies tendered by one entity to another on a date or dates in the future, along with periodically provided compensation thereon, said system comprising:

means for servicing financial contracts including  
30 periodically establishing a rate of compensation tied to an external benchmark, being diminished during any period in which the issuing entity's solvency is threatened or credit quality, including with respect to the business activity to which the contract relates, is impaired and augmented during  
35 periods in which the results of a formula computation exceed certain pre-agreed levels.



43. The system of claim 42, comprising:  
date determining means for determining that periodic  
computation, period ending, payment, and maturity dates have  
occurred or will occur within a preset number of days;

5

44. The system of claim 42, comprising:  
account beginning balance establishing means for  
determining the balance at the end of the previous period(s)  
of the accounts used for the purpose of allocating the  
10 financial results of the issuing entity's business activities  
identified to the financial contract(s) and periodically  
determining its obligations to contractholder(s) and service  
providers.

15 45. The system of claim 42, comprising:  
rate setting means of determining and storing the  
periodic external benchmark to be used to reset periodic  
compensation of the financial contract, the rate parameters  
for the period, and the conditions under which the issuing  
20 entity could reduce the periodic compensation of the financial  
contract to a level less than an amount determined by applying  
the external benchmark.

46. The system of claim 42, comprising:  
25 input determination means for determining the inputs  
to the accounts for the current period(s) prior to calculation  
of periodic compensation.

47. The system of claim 42, comprising:  
30 recalculation means of determining and recalculating  
the periodic compensation rate.

48. The system of claim 42, comprising:  
account adjustment means for determining the inputs  
35 to the accounts for the current period(s) after calculation of  
periodic compensation.

49. The system of claim 42, comprising:  
payment establishing means for determining payments  
to contractholder, intermediaries, and service providers
- 5 50. The system of claim 42, comprising:  
account transfer means for allocating transfer  
amounts between the accounts established at issuance of the  
financial contract.
- 10 51. The system of claim 42, comprising:  
account ending balance establishing means for  
determining and storing the balance at the end of the current  
period(s) of the accounts used for the purpose of allocating  
the financial results of the issuing entity's business  
15 activities identified to the financial contract(s) and  
periodically determining its obligations to contractholder(s)  
and service providers.
- 20 52. The system of claim 42, comprising:  
prepayment means of determining if conditions exist  
during a period under which the issuing entity could partially  
or wholly prepay the financial contract during its term, and  
means for partially or wholly prepaying such financial  
contract.
- 25 53. The system of claim 42, comprising:  
restriction means for determining allocation of  
amounts identified to the financial contract are being used by  
the issuing entity in the identified business activity(ies),  
30 consistent with the terms agreed, recorded and communicated at  
issuance of the financial contract(s).
54. The system of claim 42, comprising:  
portfolio management means for periodically  
35 adjusting a portfolio of securities and updating said asset  
positi n list periodically.

55. The system of claim 42, comprising:  
entering means for recording, updating, and storing  
payment information, current rate information, compensation  
and paying information and other contract information and  
5 contractholder inquiries.

56. The system of claim 42, comprising:  
reporting means for generating detail and summary  
data on account balances and the status of the issuing  
10 entity's assets and its contractual obligations to the  
contractholder.

57. The system of claim 42, comprising:  
account list means for recording, updating and  
15 storing the account list of current balance information for  
each financial contract, account information and the accounts  
into which said issuing means has issued a financial contract.

58. The system of claim 42, comprising:  
20 transaction and inquiry reporting means for  
confirming individual transactions and responding to inquiries  
from customers.

59. The system of claim 42, comprising:  
25 management reporting means for periodically  
generating a report including a summary of contracts issued,  
periodic compensation allocations, payments, asset and  
liability position, and investment performance.

30 60. The system of claim 44, comprising:  
means for retrieving the previous period ending  
balance of the balance, payment, and purpose accounts.

61. The system of claim 45, comprising:  
35 means for determining the external benchmark rate  
for the period and other rate levels, which may include the

maximum rate for the period, the contract maximum rate, and a contract minimum rate.

62. The system of claim 46, comprising:

5 means for determining as of the periodic computation date, after distribution of required payments to contractholder(s), the amount of contract proceeds and accrued compensation, if applicable, outstanding to contractholder(s) from issuing entity, such amount being the balance on the  
10 periodic computation date of the balance account.

63. The system of claim 46, further comprising:

means for determining the amount of the periodic increase in assets allocated to purpose account(s) to be  
15 recognized as attributable to the computational account in the respective period.

64. The system of claim 63, comprising:

means for establishing the beginning periodic  
20 computational balance;

means for retrieving adjustment parameter data agreed at issuance; and

means for determining the adjusted periodic balance of the computational account to be used in determining  
25 periodic compensation.

65. The system of claim 46, comprising:

means for determining the amount of assets allocated to the payment account when compounded to payment date(s)  
30 required under the financial contract using rates of compensation accruing on such instruments is sufficient to meet all previously agreed terms of the financial contract; and

means for determining, if such assets are  
35 insufficient, a percentage as it relates to the balance account of the amount necessary to eliminate such shortfall.

66. The system of claim 47, comprising:

means for dividing the adjusted periodic balance of the computational account by the balance on the periodic computation date of the balance account, added to the minimum  
5 rate, if such rate is funded with assets allocated to the payment account and such payment account is not insufficient on the date of the periodic computation, said result being the formula rate; and

means for comparing the formula rate to the external  
10 benchmark, and other rates which may include a minimum rate, a contract maximum rate, and a maximum rate for the period.

67. The system of claim 47, further comprising:

means for determining the amount to be allocated to  
15 the computational account if the formula rate is less than the external benchmark to permit the issuing entity to establish the compensation crediting rate for the subsequent period at the external benchmark; and

means for determining whether sufficient such amount  
20 is available for transfer from purpose accounts or from other assets or revenues of the issuing entity to the extent agreed at issuance of the financial contract, and if not the amount otherwise available for such transfer.

25 68. The system of claim 47, further comprising:

means for establishing the compensation crediting rate at the external benchmark if the formula rate is below the external benchmark and sufficient assets are available for allocation to the computational account;

30 means for establishing the compensation crediting rate at a level below the external benchmark if assets allocated to the computational account are not sufficient to establish such rate at the external benchmark, such lower rate being determined by computing the percentage at which such  
35 available assets would be sufficient to fund compensation for the subsequent period; and

means for establishing the compensation crediting rate above the formula rate if such rate does not exceed any periodic maximum or contract maximum rate, and in the event the formula rate does exceed such maximum rates, establishing  
5 the compensation crediting rate for the subsequent period at the lower of such rates.

69. The system of claim 48, comprising:  
means for determining the present value of the  
10 subsequent period compensation based on the newly established compensation crediting rate;  
means for transferring such amount from the computational account to the payment account; and  
means for transferring any remaining balance in th  
15 computational account to one or more purpose accounts or as otherwise as provided in the financial contract.

70. The system of claim 51, comprising:  
means for reducing the payment account by any  
20 payments made to contractholder; and  
means for increasing the balance account by the accrual of compensation based on the compensation crediting rate.

25 71. The system of claim 52, comprising:  
means for retrieving the prepayment parameters of the financial contract;  
means of monitoring and reporting changes in investments, interest rates, inflation rates, profits  
30 generated on assets identified to the financial instrument and other criteria and information parameters; and  
means for determining the effects of changes in interest rates and account balances on the economics of the financial contract and the appropriateness of prepaying the  
35 financial contract.

72. The system of claim 71, comprising:

means for determining a redemption value of assets set aside to assure payment of minimum contract obligations, and the minimum requirement for contract repayment prior to maturity; and

- 5 means for determining the cost to defease or repay said contract liability based on the present value of assets identified to the contract, data concerning investment yields, other costs, and the time period to said payment date, which may include any minimum prepayment amounts.

10

73. The system of claim 71, comprising:

means of determining that the prepayment date is within periodic dates on which the issuing entity can elect to partially or wholly prepay the financial contract.

15

74. The system of claim 42, further comprising:

means to create subaccounts and periodically allocate a portion of amounts allocated to accounts to such subaccounts.

20

75. The system of claim 42, further comprising:

- portfolio management means for selecting portfolio of securities and updating said asset position list periodically, based on an amount of cash that is available for  
25 investment, current composition of the asset portfolio, projected cash need for the following period, projected compensation liability schedule, and predefined portfolio selection criteria, in order to generate a stream of cash flows from the asset portfolio that will be sufficient to  
30 cover in full in a timely manner the contract obligations; and  
means for recording the selected security purchase and sale transaction data to update the asset position list.

76. The system of claim 42, further comprising:

- 35 payment and reporting means responsive to sending contractholders periodic payments, notices and status reports of their financial contracts.

77. A system of creating and administering financial contracts having terms and conditions which provide repayment of monies tendered by one entity to another on a date or dates in the future, along with periodically provided compensation thereon, said system comprising:

means for issuing financial contracts which provide for the level of compensation thereon to be adjusted periodically to produce a rate of compensation tied to an external benchmark, allowing the issuing entity to establish a lower rate of compensation in any period in which its solvency or deteriorating credit quality, including with respect to the business activity to which the contract relates, is otherwise threatened in exchange for establishment of a higher rate of compensation during periods in which the results of a formula computation exceed certain pre-agreed levels; and

means for servicing financial contracts including periodically establishing a rate of compensation tied to an external benchmark, being diminished during any period in which the issuing entity's solvency is threatened or credit quality, including with respect to the business activity to which the contract relates, is impaired and augmented during periods in which the results of a formula computation exceed certain pre-agreed levels.

78. The system of claim 77, comprising:

means of identifying a particular business activity and agreeing the terms under which funds received from the issuance of the financial contract(s) will be used by the issuing entity; and

means for negotiating between an issuing entity and one or more contractholders, the terms of financial contract(s) which provide for the level of compensation thereon to be adjusted periodically to produce a rate of compensation tied to an external benchmark, allowing the paying entity to establish a lower rate of compensation in any period in which its solvency or deteriorating credit quality is otherwise threatened in exchange for establishment of a



higher rate of compensation during periods in which the results of a formula computation exceed certain pre-agreed levels.

5        79. The system of claim 77, comprising:

means of the issuing entity creating one or more accounts for the purpose of allocating the financial results of its business activities identified to the financial contract(s); and

10        means of the issuing entity creating one or more accounts for the purpose of initially establishing and periodically determining its obligations to contractholder(s) and service providers.

15        80. The system of claim 77, comprising:

means of the initially establishing and periodically updating the external benchmark used to establish periodic compensation of the financial contract.

20        81. The system of claim 77, comprising:

means of initially establishing the conditions under which the issuing entity could reduce periodic compensation of the financial contract to a level less than an amount determined by applying the external benchmark.

25

82. The system of claim 77, comprising:

means of the issuing entity periodically establishing the level of compensation of the financial contract to the contractholder(s) for each respective period.

30

83. The system of claim 77, comprising:

means of agreeing the terms under which the issuing entity could partially or wholly prepay the financial contract; and

35        means of determining in a given period that conditions exist which permit the issuing entity to partially or completely prepay the financial contract.

84. The system of claim 77, comprising:

investment management means for selecting a portfolio of securities and/or application of contract proceeds to other business purposes, and periodically updating  
5 said asset allocation accounts; and

reporting means for generating detail and summary data on the current status of the issuing entity's assets and its contractual obligations to the contractholder.

10 85. A method of creating and administering financial contracts having terms and conditions which provide repayment of monies tendered by one entity to another on a date or dates in the future, along with periodically provided compensation thereon, said method comprising the steps of:

15 issuing financial contracts which provide for the level of compensation thereon to be adjusted periodically to produce a rate of compensation tied to an external benchmark, allowing the issuing entity to establish a lower rate of compensation in any period in which its solvency or  
20 deteriorating credit quality, including with respect to the business activity to which the contract relates, is otherwise threatened in exchange for establishment of a higher rate of compensation during periods in which the results of a formula computation exceed certain pre-agreed levels.

25

86. The method of claim 85, comprising the steps of:

contract negotiation between the issuing entity and one or more contractholders to negotiate, which may include the use of intermediaries and service providers, the terms of  
30 financial contract(s) which provide for the level of compensation thereon to be adjusted periodically to produce a rate of compensation tied to an external benchmark, allowing the paying entity to establish a lower rate of compensation in any period in which its solvency or deteriorating credit  
35 quality, including with respect to the business activity to which the contract relates, is otherwise threatened in exchange for establishment of a higher rate of compensation

during periods in which the results of a formula computation exceed certain pre-agreed levels;

identifying a particular business activity,  
agreeing, recording and communicating the terms under which  
5 funds received from the issuance of the financial contract(s)  
will be used by the issuing entity;

creating one or more accounts for the purpose of  
allocating the financial results of the issuing entity's  
business activities identified to the financial contract(s)  
10 and initially establishing and periodically determining its  
obligations to contractholder(s) and service providers;

initially establishing the external benchmark used  
as a basis to reset periodic compensation of the financial  
contract, establishing periodic rate parameters, and initially  
15 establishing the conditions under which the issuing entity  
could reduce periodic compensation of the financial contract  
to a level less than an amount determined by applying the  
external benchmark;

determining the inputs based on such terms and  
20 conditions for recalculating the periodic compensation;

determining, recording and storing at issuance the  
terms under which the issuing entity could partially or wholly  
prepay the financial contract during its term;

recording and storing contract purchase, contract  
25 terms and conditions, payment information, current interest  
rate matrix, compensation and paying information, acceleration  
notice provisions, and other contract information and  
contractholder inquiries; and

issuing financial contracts which provide  
30 compensation periodically determined by the issuing entity  
and accepting contract proceeds.

87. The method of claim 85, further comprising the steps  
of:

35 allocating contract proceeds to various accounts  
established at issuance of the financial contract, allocation  
of th issuing entity's obligations to contractholder(s) to

one or more accounts, and determining account balances at issuance of the financial contract;

selecting a portfolio of securities and/or application of contract proceeds to other business purposes;

5 recording and storing an asset position list of current balance information concerning application of contract proceeds;

generating detail and summary data on initial terms of the financial contract(s) and the initial status of the  
10 issuing entity's assets and its contractual obligations to the contractholder; and

recording and storing an account list of current balance information for each financial contract, account information and the accounts into which said issuing means has  
15 issued a financial contract.

88. The method of claim 86 of negotiating contracts, comprising the steps of:

recording and storing proposed contract terms, which  
20 may include the proposed date of transfer and amount to be tendered by prospective contractholder(s) to the issuing entity, the proposed amounts and dates of repayment by the issuing entity of such tendered amounts, the dates and method of determining payments of periodic compensation to  
25 contractholder(s) by issuing entity, any restriction(s) on use of contract proceeds, initial compensation period and rate of compensation, minimum rates of compensation, maximum rates of compensation, interest rate crediting parameters and formula computation methods, prepayment terms, and other proposed  
30 contract terms; and

communicating such proposed contract terms and other information between issuing entity, prospective contractholders, intermediaries and service providers.

35 89. The method of claim 86 of establishing accounts, further comprising the step of:

creating a plurality of accounts to serve the financial contract including one or more balance, payment, purpose and computational accounts.

5        90. The method of establishing rates of claim 86, comprising the steps of establishing:

an initial compensation period and an initial rate of compensation for such period;

the external benchmark as the periodic interest rate  
10 on government securities of similar term to the financial contract (remaining term government rate);

an adjustment factor including basis point adjustment to augment or diminish an externally determined periodic rate, said resultant periodic value being the  
15 external benchmark for the purposes of determining periodic compensation under the financial contract; and

inputs to and computational parameters of a formula which gauges the solvency and credit quality of the issuing entity's periodic activities with respect to the business  
20 activities for which the contract proceeds are dedicated.

91. The method of establishing rates of claim 90, further comprising the steps of establishing:

a minimum periodic rate of compensation;

25 a conditional maximum rate of compensation during any specific period by way of augmenting the external benchmark by a pre-agreed number of basis points (one hundred basis points equalling one percent); and

a maximum rate of compensation for all periods  
30 during the life of the financial contract.

92. The method of establishing recalculation terms and conditions of claim 86, comprising the steps of:

recording and storing periodic dates for  
35 recalculation; and

recording and storing a procedure for periodic rate recomputation;

allocating and determining revenues and assets of the issuing entity, if any, other than those assets identified to the financial contract to which its contract proceeds are initially applied, to the establishment and payment of periodic compensation.

93. The method of establishing prepayment terms and conditions of claim 86, comprising the steps of:

recording and storing periodic dates on which the issuing entity could elect to partially or wholly prepay the financial contract;

recording and storing terms and conditions for periodic rate recomputation;

determining a minimum rate of periodic compensation to be paid to the contractholder if the issuing entity wholly prepays the financial contract prior to maturity, if applicable;

determining a portion of the financial contract which may not be prepaid prior to maturity, if applicable.

20

94. The method of issuing the contract of claim 86, further comprising the steps of:

establishing the amount and currency of the contract proceeds transferred to the issuing entity, the maturity date of the financial contract, the initial compensation period, the rate of compensation during the initial compensation period, the currency in which the financial contract is denominated, the contract proceeds currency exchange rate if applicable, compensation periods, dates and terms under which periodic compensation will be accrued and paid, specific rate parameters and procedure for determining periodic compensation, prepayment provisions, account drawdown provisions, payment procedures, and such other information as the issuing entity and contractholder(s) may agree;

issuing the financial instrument as a debt obligation, an annuity contract, a guaranteed investment

restricting the use of profits generated from the investment of contract proceeds allocated to purpose accounts, to enhance the security and repayment of financial contract obligations, including increasing the level of periodic  
5 compensation.

97. The method of creating a payment account of claim 95, further comprising the steps of:

determining the present value at issuance of  
10 contract proceeds to be repaid at maturity, based on current interest rates for investment securities; and  
allocating investment securities to such payment account which are invested at such current market rates of interest and are sufficient at their respective maturities  
15 dates to repay the initial contract proceeds of the financial contract.

98. The method of claim 97, further comprising the steps of:

20 determining the present value at issuance of minimum periodic compensation to be paid on one or more periodic compensation payment dates in the futures, based on current interest rates for investment securities matching such payment date(s); and  
25 initially allocating investment securities to such payment account which are invested at predetermined rates of interest and are sufficient at their respective maturities dates to pay the minimum rate of periodic compensation on the financial contract on one or more periodic compensation  
30 payment dates in the future.

99. The method of claim 85, further comprising the steps of:

entering, storing, updating and communicating  
35 external market rate data used to determine the periodic external benchmark rate; and

entering, storing, updating and communicating the results of periodic rate formula, and maximum annual compensation rates.

- 5        100. A method of creating and administering financial contracts having terms and conditions which provide repayment of monies tendered by one entity to another on a date or dates in the future, along with periodically provided compensation thereon, said method comprising the steps of:
- 10            servicing financial contracts including periodically establishing a rate of compensation tied to an external benchmark, being diminished during any period in which the issuing entity's solvency is threatened or credit quality, including with respect to the business activity to which the
- 15 contract relates, is impaired and augmented during periods in which the results of a formula computation exceed certain pre-agreed levels.

- 20        101. A method of creating and administering financial contracts having terms and conditions which provide repayment of monies tendered by one entity to another on a date or dates in the future, along with periodically provided compensation thereon, said method comprising the steps of:

- determining that periodic computation, period
- 25 ending, payment, and maturity dates have occurred or will occur within a preset number of days;

- establishing the balance at the end of the previous period(s) of the accounts used for the purpose of allocating the financial results of the issuing entity's business
- 30 activities identified to the financial contract(s) and periodically determining its obligations to contractholder(s) and service providers;

- determining and storing the periodic external benchmark to be used to reset periodic compensation of the
- 35 financial contract, the rate parameters for the period, and the conditions under which the issuing entity could reduce the periodic compensation of the financial contract to a level



less than an amount determined by applying the external benchmark;

establishing the inputs to the accounts for the current period(s) prior to calculation of periodic

5 compensation;

determining and recalculating the periodic compensation rate;

establishing the inputs to the accounts for the current period(s) after calculation of periodic compensation;

10 determining payments to contractholder, intermediaries, and service providers;

allocating transfer amounts between the accounts established at issuance of the financial contract; and

determining and storing the balance at the end of  
15 the current period(s) of the accounts used for the purpose of allocating the financial results of the issuing entity's business activities identified to the financial contract(s) and periodically determining its obligations to contractholder(s) and service providers.

20

102. The method of claim 100, further comprising the step of:

determining if conditions exist during a period under which the issuing entity could partially or wholly  
25 prepay the financial contract during its term, and means for partially or wholly prepaying such financial contract.

103. The method of claim 101, further comprises the steps of:

30 determining allocation of amounts identified to the financial contract are being used by the issuing entity in the identified business activity(ies), consistent with the terms agreed, recorded and communicated at issuance of the financial contract(s); and

35 periodically adjusting a portfolio of securities and updating said asset position list periodically.

104. The method of claim 101, further comprises the steps of:

recording, updating, and storing payment information, current rate information, compensation and paying  
5 information and other contract information and contractholder inquiries;

generating detail and summary data on account balances and the status of the issuing entity's assets and its contractual obligations to the contractholder; and

10

recording, updating and storing the account list of current balance information for each financial contract, account information and the accounts into which said issuing means has issued a financial contract.

15

105. The method of claim 101, comprising the steps of:  
confirming individual transactions and responding to inquiries from customers;

periodically generating a report including a summary  
20 of contracts issued, periodic compensation allocations, payments, asset and liability position, and investment performance;

106. The method of claim 101, further comprising the  
25 steps of:

retrieving the previous period ending balance of the balance, payment, and purpose accounts;

determining the external benchmark rate for the period and other rate levels, which may include the maximum  
30 rate for the period, the contract maximum rate, and a contract minimum rate;

determining as of the periodic computation date, after distribution of required payments to contractholder(s), the amount of contract proceeds and accrued compensation, if  
35 applicable, outstanding to contractholder(s) from issuing entity, such amount being the balance on the periodic computation date of the balance account;

determining the amount of the periodic increase in assets allocated to purpose account(s) to be recognized as attributable to the computational account in the respective period.

5

107. The method of claim 101, comprising the steps of:  
establishing the beginning periodic computational balance;

retrieving adjustment parameter data agreed at  
10 issuance; and

determining the adjusted periodic balance of the computational account to be used in determining periodic compensation.

15

108. The method of claim 101, further comprising the steps of:

determining the amount of assets allocated to the payment account when compounded to payment date(s) required  
20 under the financial contract using rates of compensation accruing on such instruments is sufficient to meet all previously agreed terms of the financial contract; and

determining, if such assets are insufficient, a percentage as it relates to the balance account of the amount  
25 necessary to eliminate such shortfall.

109. The method of claim 101, further comprising the steps of:

dividing the adjusted periodic balance of the  
30 computational account by the balance on the periodic computation date of the balance account, added to the minimum rate, if such rate is funded with assets allocated to the payment account and such payment account is not insufficient on the date of the periodic computation, said result being the  
35 formula rate; and

comparing the formula rate to the external benchmark, and other rates which may include a minimum rate, a contract maximum rate, and a maximum rate for the period.

5        110. The method of claim 101, further comprising the steps of determining:

the amount to be allocated to the computational account if the formula rate is less than the external benchmark to permit the issuing entity to establish the  
10 compensation crediting rate for the subsequent period at the external benchmark; and

whether sufficient such amount is available for transfer from purpose accounts or from other assets or revenues of the issuing entity to the extent agreed at  
15 issuance of the financial contract, and if not the amount otherwise available for such transfer.

111. The method of claim 101, further comprising the steps of establishing the compensation crediting rate:

20        at the external benchmark if the formula rate is below the external benchmark and sufficient assets are available for allocation to the computational account;

at a level below the external benchmark if assets allocated to the computational account are not sufficient to  
25 establish such rate at the external benchmark, such lower rate being determined by computing the percentage at which such available assets would be sufficient to fund compensation for the subsequent period; and

above the formula rate if such rate does not exceed any  
30 periodic maximum or contract maximum rate, and in the event the formula rate does exceed such maximum rates, establishing the compensation crediting rate for the subsequent period at the lower of such rates.

35        112. The method of claim 101, further comprising the steps of:

determining the present value of the subsequent period compensation based on the newly established compensation crediting rate;

transferring such amount from the computational  
5 account to the payment account; and

transferring any remaining balance in the computational account to one or more purpose accounts or as otherwise as provided in the financial contract.

10        113. The method of claim 101, further comprising the steps of:

reducing the payment account by any payments made to contractholder; and

15        increasing the balance account by the accrual of compensation based on the compensation crediting rate.

114. The method of claim 102, further comprising the steps of:

20        retrieving the prepayment parameters of the financial contract;

monitoring and reporting changes in investments, interest rates, inflation rates, profits generated on assets identified to the financial instrument and other criteria and  
25 information parameters;

determining the effects of changes in interest rates and account balances on the economics of the financial contract and the appropriateness of prepaying the financial contract;

30        establishing a redemption value of assets set aside to assure payment of minimum contract obligations, and the minimum requirement for contract repayment prior to maturity;

determining the cost to defease or repay said contract liability based on the present value of assets  
35 identified to the contract, data concerning investment yields, other costs, and the time period to said payment date, which may include any minimum prepayment amounts; and

d terminating that the prepayment date is within periodic dates on which the issuing entity can elect to partially or wholly prepay the financial contract.

5 115. The method of claim 101, further comprising the steps of:

creating subaccounts and periodically allocate a portion of amounts allocated to accounts to such subaccounts;  
selecting portfolio of securities and updating said  
10 asset position list periodically, based on an amount of cash that is available for investment, current composition of the asset portfolio, projected cash need for the following period, projected compensation liability schedule, and predefined portfolio selection criteria, in order to generate a stream of  
15 cash flows from the asset portfolio that will be sufficient to cover in full in a timely manner the contract obligations;  
recording the selected security purchase and sale transaction data to update the asset position list; and  
sending contractholders periodic payments, notices  
20 and status reports of their financial contracts.

116. A method of creating and administering financial contracts having terms and conditions which provide repayment of monies tendered by one entity to another on a date or dates  
25 in the future, along with periodically provided compensation thereon, said method comprising the steps of:

issuing financial contracts which provide for the level of compensation thereon to be adjusted periodically to produce a rate of compensation tied to an external benchmark,  
30 allowing the issuing entity to establish a lower rate of compensation in any period in which its solvency or deteriorating credit quality, including with respect to the business activity to which the contract relates, is otherwise threatened in exchange for establishment of a higher rate of  
35 compensation during periods in which the results of a formula computation exceed certain pre-agreed levels; and

servicing financial contracts including periodically establishing a rate of compensation tied to an external benchmark, being diminished during any period in which the issuing entity's solvency is threatened or credit quality, including with respect to the business activity to which the contract relates, is impaired and augmented during periods in which the results of a formula computation exceed certain pre-agreed levels.

10        117. The method of claim 116, comprising the steps of:  
         identifying a particular business activity and  
         agreeing the terms under which funds received from the  
         issuance of the financial contract(s) will be used by the  
         issuing entity; and

15        negotiating between an issuing entity and one or  
         more contractholders, the terms of financial contract(s) which  
         provide for the level of compensation thereon to be adjusted  
         periodically to produce a rate of compensation tied to an  
         external benchmark, allowing the paying entity to establish a  
20        lower rate of compensation in any period in which its solvency  
         or deteriorating credit quality is otherwise threatened in  
         exchange for establishment of a higher rate of compensation  
         during periods in which the results of a formula computation  
         exceed certain pre-agreed levels.

25        118. The method of claim 116, comprising the steps of the  
         issuing entity creating one or more accounts for the purpose  
         of:

         allocating the financial results of its business  
30        activities identified to the financial contract(s); and  
         initially establishing and periodically determining  
         its obligations to contractholder(s) and service providers.

         119. The method of claim 116, further comprising the  
35        steps of initially establishing:

the external benchmark used to establish periodic compensation of the financial contract, as well as periodic updating; and

the conditions under which the issuing entity could  
5 reduce periodic compensation of the financial contract to a level less than an amount determined by applying the external benchmark.

120. The method of claim 116, further comprising the step  
10 of:

the issuing entity periodically establishing the level of compensation of the financial contract to the contractholder(s) for each respective period.

121. The method of claim 116, further comprising the step  
15 of:

agreeing the terms under which the issuing entity could partially or wholly prepay the financial contract; and  
determining in a given period that conditions exist  
20 which permit the issuing entity to partially or completely prepay the financial contract.

122. The method of claim 116, comprising the steps of:  
selecting a portfolio of securities and/or  
25 application of contract proceeds to other business purposes, and periodically updating said asset allocation accounts; and  
generating detail and summary data on the current status of the issuing entity's assets and its contractual obligations to the contractholder.

30

123. The system of claim 77 having in addition data processing means which data processing means includes such means for issuing and such means for servicing.

124. A data processing system of creating and  
35 administering financial contracts which provide repayment of monies tendered by one entity to another on a date or dates in



the future, along with periodically provided compensation tied to an external benchmark and allowing the issuing entity to lower or raise such compensation base on a business activity financed by such financial contracts, said system comprising  
5 input means and memory means, said inputting means capable of inputting:

restrictions for identifying particular business activities;

contract terms and conditions;

10 account information including allocations;

rate establishment information;

recalculation information;

initial periods and subsequent periods and dates for calculation; and

15 issuing entity revenue and assets other than contract assets.

125. The data processing system of claim 124, comprising:

contract negotiation means for the issuing entity

20 and one or more contractholders to negotiate aided by electronic means, which may include the use of intermediaries and service providers, the terms of financial contract(s) which provide for the level of compensation thereon to be adjusted periodically to produce a rate of compensation tied  
25 to an external benchmark, allowing the paying entity to establish a lower rate of compensation in any period in which its solvency or deteriorating credit quality, including with respect to the business activity to which the contract relates, is otherwise threatened in exchange for establishment  
30 of a higher rate of compensation during periods in which the results of a formula computation exceed certain pre-agreed levels;

electronically recording and communicating the terms under which funds received from the issuance of the financial  
35 contract(s) will be used by the issuing entity.

126. The data processing system of claim 124,  
comprising:

account establishing means for creating and storing  
information pertaining to one or more accounts used for the  
5 purpose of allocating the financial results of the issuing  
entity's business activities identified to the financial  
contract(s) and initially establishing and periodically  
determining its obligations to contractholder(s) and service  
providers.

10

127. The data processing system of claim 124, comprising:

rate establishing means of initially establishing  
and electronically storing the external benchmark used as a  
basis to reset periodic compensation of the financial  
15 contract, establishing, storing and updating periodic rate  
parameters, and initially establishing and storing the  
conditions under which the issuing entity could reduce  
periodic compensation of the financial contract to a level  
less than an amount determined by applying the external  
20 benchmark.

128. The data processing system of claim 124, comprising:

recalculation means of determining, inputting and  
storing the inputs based on such terms and conditions for  
25 recalculating the periodic compensation.

129. The data processing system of claim 124, comprising:

prepayment means of determining, recording and  
storing at issuance the terms under which the issuing entity  
30 could partially or wholly prepay the financial contract during  
its term.

130. The data processing system of claim 124, comprising:

means for recording and electronically storing  
35 contract purchases, contract terms and conditions, payment  
information, current interest rate matrix, compensation and

paying information, acceleration notice provisions, and other contract information and contractholder inquiries.

131. The data processing system of claim 123, comprising:  
5 means of issuing financial contracts, aided by data processing means, which provide compensation periodically determined by the issuing entity and accepting contract proceeds.
- 10 132. The data processing system of claim 124, comprising:  
means for electronically allocating contract proceeds to various accounts established at issuance of the financial contract, allocation of the issuing entity's obligations to contractholder(s) to one or more accounts, and  
15 determining account balances at issuance of the financial contract;  
means for recording and storing, by data processing means, an asset position list of current balance information concerning application of contract proceeds;  
20 reporting means for electronically generating detail and summary data on initial terms of the financial contract(s) and the initial status of the issuing entity's assets and its contractual obligations to the contractholder; and  
means for electronically recording and storing an  
25 account list of current balance information for each financial contract, account information and the accounts into which said issuing means has issued a financial contract.
- 30 133. The data processing system of claim 125, comprising:  
means of recording and electronically storing proposed contract terms, which may include the proposed date of transfer and amount to be tendered by prospective contractholder(s) to the issuing entity, the proposed amounts and dates of repayment by the issuing entity of such tendered  
35 amounts, the dates and method of determining payments of periodic compensation to contractholder(s) by issuing entity, any restriction(s) on use of contract proceeds, initial

compensation period and rate of compensation, minimum rates of compensation, maximum rates of compensation, interest rate crediting parameters and formula computation methods, prepayment terms, and other proposed contract terms; and

5 means of electronically communicating such proposed contract terms and other information between issuing entity, prospective contractholders, intermediaries and service providers.

10 134. The data processing system of claim 126 of account establishing means, further comprising:

means of electronically creating and administering a plurality of accounts to serve the financial contract including one or more balance, payment, purpose and

15 computational accounts.

135. The data processing system of rate setting means of claim 127, comprising:

20 means of electronically recording an initial compensation period and an initial rate of compensation for such period;

means of establishing, storing and updating, by data processing means, the external benchmark as the periodic interest rate on government securities of similar term to the 25 financial contract (remaining term government rate);

means of electronically determining and storing an adjustment factor including basis point adjustment to augment or diminish an externally determined periodic rate, said resultant periodic value being the external benchmark for the 30 purposes of determining periodic compensation under the financial contract;

means of inputting and storing a minimum periodic rate of compensation, a conditional maximum rate of compensation during any specific period by way of augmenting 35 the external benchmark by a pre-agreed number of basis points (one hundred basis points equalling one percent), a maximum

rate of compensation for all periods during the life of the financial contract; and

means of determining, aided by data processing means, inputs to and computational parameters of a formula which gauges the solvency and credit quality of the issuing entity's periodic activities with respect to the business activities for which the contract proceeds are dedicated.

136. The data processing system of recalculation means of claim 128, comprising:

means of electronically recording and storing periodic dates for recalculation; and

means of electronically recording and storing a procedure for periodic rate recomputation.

15

137. The data processing system of claim 136, further comprising:

means of electronically determining, recording and storing revenues and assets of the issuing entity, other than those assets identified to the financial contract to which its contract proceeds are initially applied, allocated to the establishment and payment of periodic compensation.

138. The data processing system of prepayment means of claim 129, comprising:

means of electronically recording and storing periodic dates on which the issuing entity could elect to partially or wholly prepay the financial contract;

means of electronically recording and storing terms and conditions for periodic rate recomputation;

means of determining, by data processing means, a minimum rate of periodic compensation to be paid to the contractholder if the issuing entity wholly prepays the financial contract prior to maturity, if applicable; and

means of determining, by data processing means, a portion of the financial contract which may not be prepaid prior to maturity, if applicable.

139. The data processing system of issuance means of claim 131, comprising:

means responsive to establishing, inputting and electronically storing the amount and currency of the contract proceeds transferred to the issuing entity, the maturity date of the financial contract, the initial compensation period, the rate of compensation during the initial compensation period, the currency in which the financial contract is denominated, the contract proceeds currency exchange rate if applicable, compensation periods, dates and terms under which periodic compensation will be accrued and paid, specific rate parameters and procedure for determining periodic compensation, prepayment provisions, account drawdown provisions, payment procedures, and such other information as the issuing entity and contractholder(s) may agree.

140. The data processing system of asset allocation means of claim 132, comprising by data processing means:

creating a balance account to which an initial balance is credited at issuance equal to the amount of contract proceeds;

creating a computational account to which an initial balance is credited at issuance equal to the amount of contract proceeds;

allocating from the computational account at issuance amounts payable to intermediaries and service providers;

allocating a portion of contract proceeds to one or more payment accounts;

allocating part or all of contract proceeds to one or more purpose accounts; and

creating a payment account to which amounts are periodically credited and payments to contractholder(s) are deducted therefrom.

141. The data processing system of claim 140, further comprising, aided by data processing means:

determining the present value at issuance of contract proceeds to be repaid at maturity, based on current interest rates for investment securities;

initially allocating investment securities to such payment account which are invested at such current market rates of interest and are sufficient at their respective maturities dates to repay the initial contract proceeds of the financial contract.

10 determining the present value at issuance of minimum periodic compensation to be paid on one or more periodic compensation payment dates in the futures, based on current interest rates for investment securities matching such payment date(s).

15 initially allocating investment securities to such payment account which are invested at predetermined rates of interest and are sufficient at their respective maturities dates to pay the minimum rate of periodic compensation on the financial contract on one or more periodic compensation payment dates in the future.

142. The data processing system of claim 124, comprising means of electronically entering, storing, updating and communicating:

25 external market rate data used to determine the periodic external benchmark rate; and

the results of periodic rate formula, and maximum annual compensation rates.

30 143. The data processing system of asset allocation means of claim 140, comprising:

means of electronically recording, storing and communicating the specific investments, investment activities, or other purposes for which a portion of the contract proceeds are to be used, and the parameters under which the issuing entity will conduct such business activities;

means of electronically monitoring investment quality, currency and duration parameters for investment securities allocated to the payment account(s); and

means for restricting, aided by data processing  
5 means, the use of profits generated from the investment of contract proceeds allocated to purpose accounts, to enhance the security and repayment of financial contract obligations, including increasing the level of periodic compensation.

10 144. The data processing system of claim 123, further comprising:

date determining means for determining, aided by data processing means, that periodic computation, period ending, payment, and maturity dates have occurred or will

15 occur within a preset number of days;

account beginning balance establishing means for electronically determining the balance at the end of the previous period(s) of the accounts used for the purpose of allocating the financial results of the issuing entity's

20 business activities identified to the financial contract(s) and periodically determining its obligations to contractholder(s) and service providers;

rate setting means of determining and storing by data processing means the periodic external benchmark to be  
25 used to reset periodic compensation of the financial contract, the rate parameters for the period, and the conditions under which the issuing entity could reduce the periodic compensation of the financial contract to a level less than an amount determined by applying the external benchmark;

30 input determination means for electronically determining the inputs to the accounts for the current period(s) prior to calculation of periodic compensation;

recalculation means of determining and electronically recalculating the periodic compensation rate;

35 and



account adjustment means for electronically determining the inputs to the accounts for the current period(s) after calculation of periodic compensation.

5        145. The data processing system of claim 123, further comprising:

        payment establishing means for electronically determining payments to contractholder, intermediaries, and service providers;

10

        account transfer means for electronically allocating transfer amounts between the accounts established at issuance of the financial contract;

        account ending balance establishing means for  
15 determining and storing, through data processing means, the balance at the end of the current period(s) of the accounts used for the purpose of allocating the financial results of the issuing entity's business activities identified to the financial contract(s) and periodically determining its

20 obligations to contractholder(s) and service providers; and

        prepayment means of electronically determining if conditions exist during a period under which the issuing entity could partially or wholly prepay the financial contract during its term, and means for partially or wholly prepaying  
25 such financial contract.

146. The data processing system of claim 123, further comprising:

        restriction means for determining through data  
30 processing means, allocations of amounts identified to the financial contract are being used by the issuing entity in the identified business activity(ies), consistent with the terms agreed, recorded and communicated at issuance of the financial contract(s);

35        portfolio management means for periodically adjusting a portfolio of securities and updating said asset position list periodically by data processing means;

entering means for electronically recording, updating, and storing payment information, current rate information, compensation and paying information and other contract information and contractholder inquiries;

5 reporting means for generating detail and summary data on account balances and the status of the issuing entity's assets and its contractual obligations to the contractholder, aided by data processing means;

account list means for recording, updating and  
10 storing the account list of current balance information for each financial contract, account information and the accounts into which said issuing means has issued a financial contract, aided by data processing means;

transaction and inquiry reporting means for  
15 electronically confirming individual transactions and responding to inquiries from customers; and

management reporting means for periodically generating a report by data processing means, including a summary of contracts issued, periodic compensation  
20 allocations, payments, asset and liability position, and investment performance.

147. The data processing system of claim 144, comprising:  
means for electronically retrieving the previous  
25 period ending balance of the balance, payment, and purpose accounts;

means for determining, by data processing means, the external benchmark rate for the period and other rate levels, which may include the maximum rate for the period, the  
30 contract maximum rate, and a contract minimum rate;

means for electronically determining as of the periodic computation date, after distribution of required payments to contractholder(s), the amount of contract proceeds and accrued compensation, if applicable, outstanding to  
35 contracthold r(s) from issuing entity, such amount being the balance on the periodic computation date of the balance account; and

means for determining, aided by data processing means, the amount of the periodic increase in assets allocated to purpose account(s) to be recognized as attributable to the computational account in the respective period.

5

148. The data processing system of claim 147, comprising electronic means for:

establishing the beginning periodic computational balance;

10 retrieving adjustment parameter data agreed at issuance; and

determining the adjusted periodic balance of the computational account to be used in determining periodic compensation.

15

149. The data processing system of claim 141, comprising means for determining by data processing means:

the amount of assets allocated to the payment account when compounded to payment date(s) required under the  
20 financial contract using rates of compensation accruing on such instruments is sufficient to meet all previously agreed terms of the financial contract; and

if such assets are insufficient, a percentage as it relates to the balance account of the amount necessary to  
25 eliminate such shortfall.

150. The data processing system of claim 144, comprising means, aided by data processing, for:

determining the formula rate by dividing the  
30 adjusted periodic balance of the computational account by the balance on the periodic computation date of the balance account, added to the minimum rate, if such rate is funded with assets allocated to the payment account and such payment account is not insufficient on the date of the periodic  
35 computation; and

comparing the formula rate to the external benchmark, and other rates which may include a minimum rate, a contract maximum rate, and a maximum rate for the period.

5        151.        The data processing system of claim 145, further comprising data processing aided means for determining:

the amount to be allocated to the computational account if the formula rate is less than the external  
10 benchmark to permit the issuing entity to establish the compensation crediting rate for the subsequent period at the external benchmark;

whether sufficient such amount is available for transfer from purpose accounts or from other assets or  
15 revenues of the issuing entity to the extent agreed at issuance of the financial contract, and if not the amount otherwise available for such transfer;

the compensation crediting rate at the external benchmark if the formula rate is below the external benchmark  
20 and sufficient assets are available for allocation to the computational account;

the compensation crediting rate at a level below the external benchmark if assets allocated to the computational account are not sufficient to establish such rate at the  
25 external benchmark, such lower rate being determined by computing the percentage at which such available assets would be sufficient to fund compensation for the subsequent period;

the compensation crediting rate above the formula rate if such rate does not exceed any periodic maximum or  
30 contract maximum rate, and in the event the formula rate does exceed such maximum rates, establishing the compensation crediting rate for the subsequent period at the lower of such rates;

the present value of the subsequent period  
35 compensation based on the newly established compensation crediting rate;

the amount to be transferred from the computational account to the payment account; and

the amount of any remaining balance in the computational account to be transferred to one or more purpose  
5 accounts or as otherwise as provided in the financial contract.

152. The data processing system of claim 145, comprising:  
means for reducing the payment account by any  
10 payments made to contractholder; and  
means for increasing the balance account by the accrual of compensation based on the compensation crediting rate.

15 153. The data processing system of claim 146, comprising means of electronically:  
retrieving the prepayment parameters of the financial contract;  
monitoring and reporting changes in investments,  
20 interest rates, inflation rates, profits generated on assets identified to the financial instrument and other criteria and information parameters; and  
determining the effects of changes in interest rates and account balances on the economics of the financial  
25 contract and the appropriateness of prepaying the financial contract.

154. The data processing system of claim 153, comprising means for determining, aided by electronic data processing  
30 means:

a redemption value of assets set aside to assure payment of minimum contract obligations, and the minimum requirement for contract repayment prior to maturity; and  
the cost to defease or repay said contract liability  
35 based on the present value of assets identified to the contract, data concerning investment yields, other costs, and

the time period to said payment date, which may include any minimum prepayment amounts.

155. The data processing system of claim 153, comprising:  
5 means of electronically determining that the prepayment date is within periodic dates on which the issuing entity can elect to partially or wholly prepay the financial contract.

10 156. The data processing system of claim 123, further comprising:

means to electronically create and store subaccounts and periodically allocate a portion of amounts allocated to accounts to such subaccounts;

15 portfolio management means for selecting portfolio of securities and updating, by data processing means, said asset position list periodically, based on an amount of cash that is available for investment, current composition of the asset portfolio, projected cash need for the following period,  
20 projected compensation liability schedule, and predefined portfolio selection criteria, in order to generate a stream of cash flows from the asset portfolio that will be sufficient to cover in full in a timely manner the contract obligations;

means for inputting and storing by data processing  
25 means, the selected security purchase and sale transaction data to update the asset position list; and

payment and reporting means responsive to sending contractholders periodic payments, notices and status reports of their financial contracts, aided by data processing means.

30

157. A financial contract produced by the practice of the method of claim 85.

158. A financial contract produced by the practice of the  
35 method of claim 86.

159. A financial contract produced by the practice of the method of claim 100.

160. A financial contract produced by the practice of the method of claim 101.

161. A financial contract produced by the practice of the method of claim 102.

162. A financial contract produced by the practice of the method of claim 114.

15

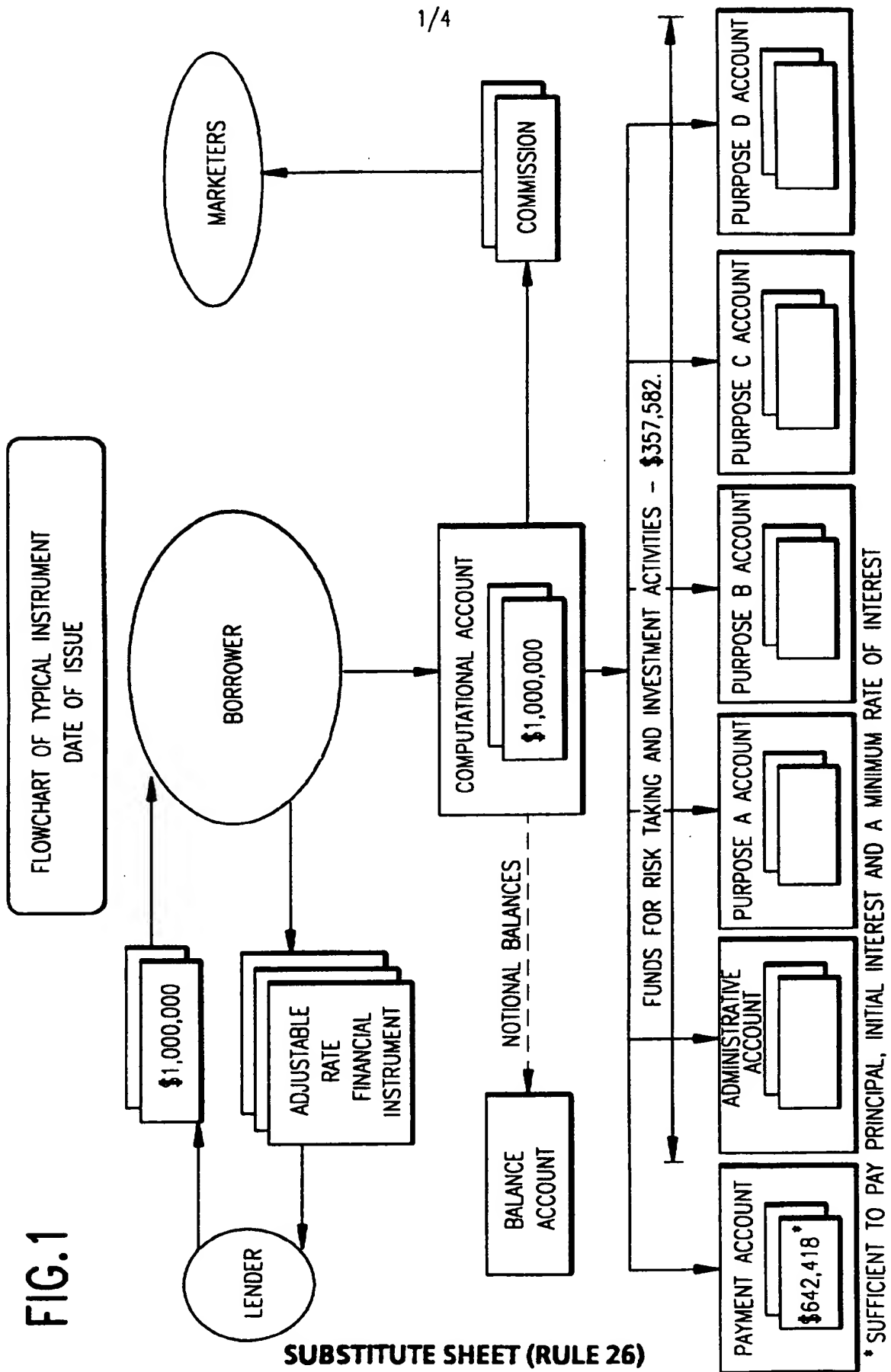
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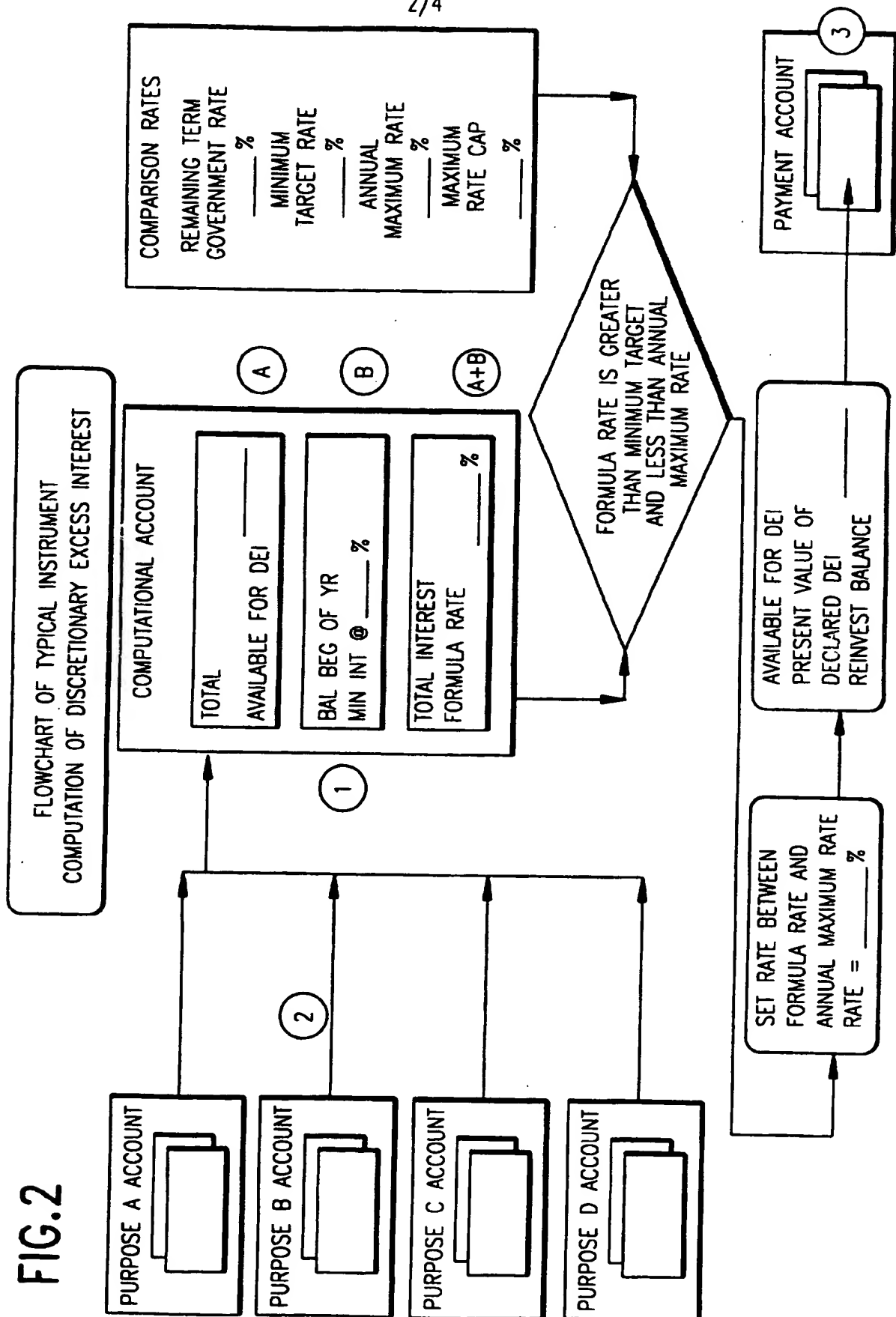
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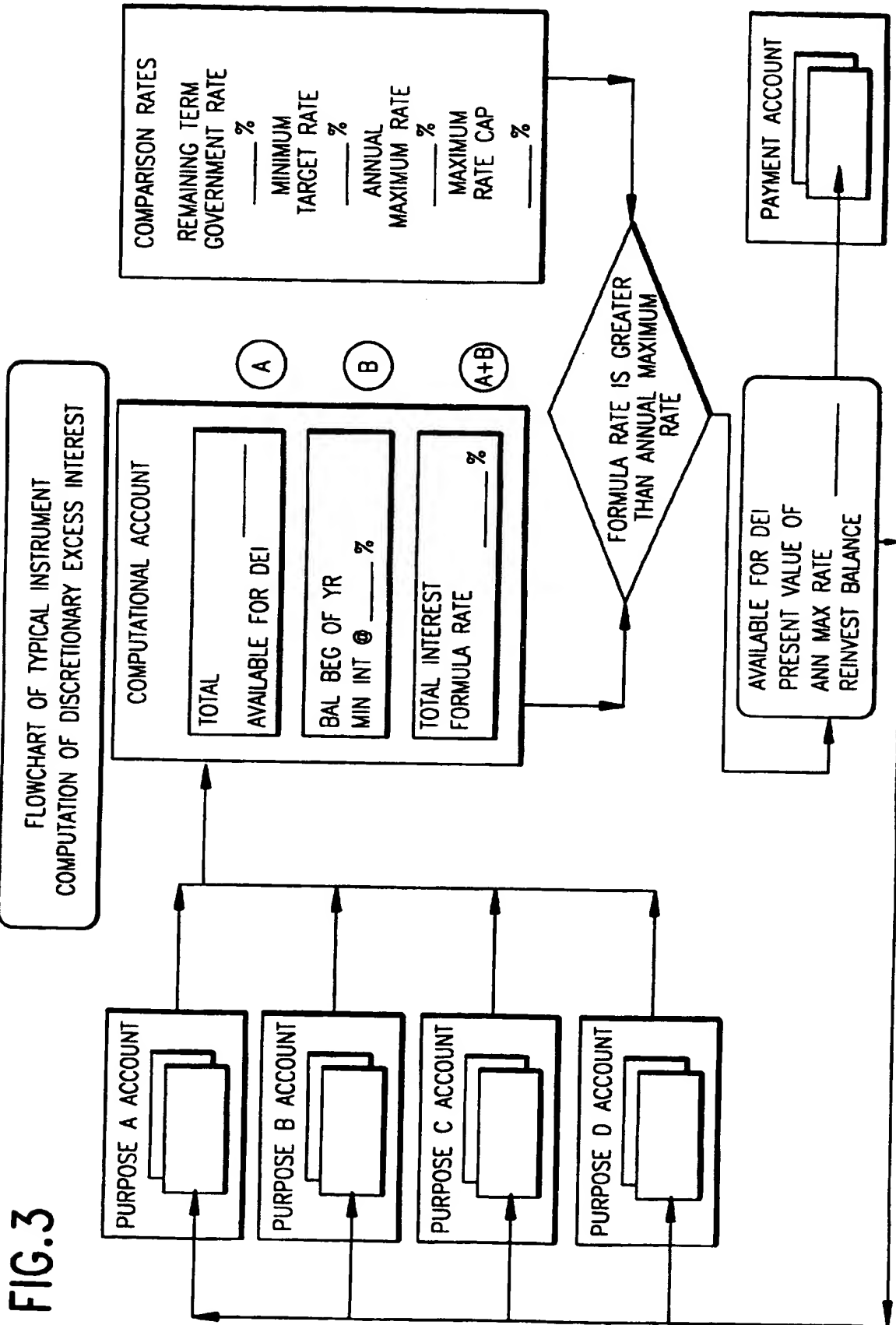
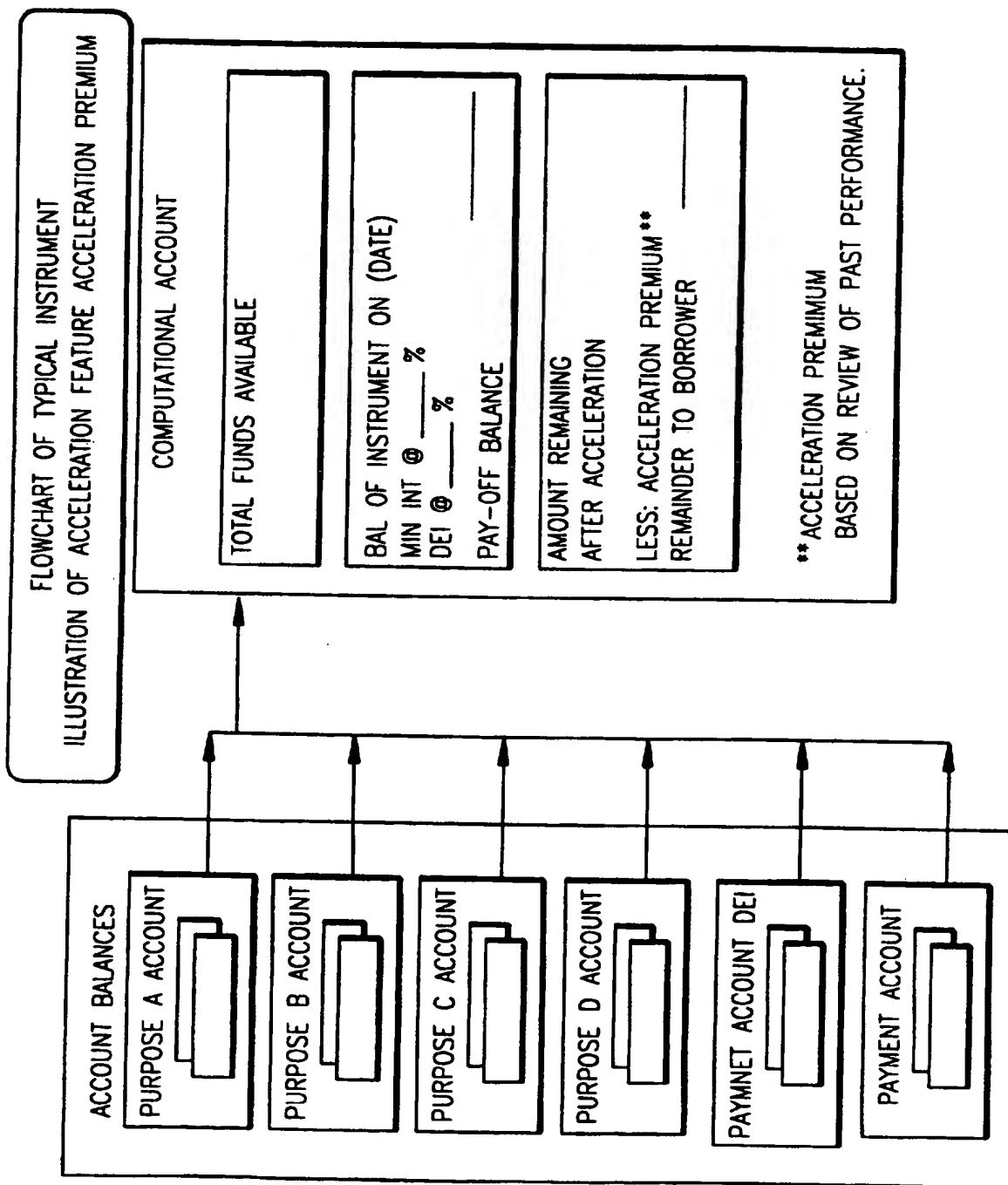


FIG. 4



## INTERNATIONAL SEARCH REPORT

International application No.  
PCT/US96/00266

**A. CLASSIFICATION OF SUBJECT MATTER**

IPC(6) :G06F 157:00

US CL :364/408

According to International Patent Classification (IPC) or to both national classification and IPC

**B. FIELDS SEARCHED**

Minimum documentation searched (classification system followed by classification symbols)

U.S. : 364/408, 401

Documentation searched other than minimum documentation to the extent that such documents are included in the fields searched

Electronic data base consulted during the international search (name of data base and, where practicable, search terms used)

**C. DOCUMENTS CONSIDERED TO BE RELEVANT**

Category*	Citation of document, with indication, where appropriate, of the relevant passages	Relevant to claim No.
A	US, A, 5,291,398 (HAGAN) 01 MARCH 1994, see figures 1a & 1b and in column 3 the summary of the invention.	1-162
A	US, A, 4,742,457 (LEON ET AL) 03 MAY 1988, see abstract, figure 2, column 5, lines 21-27, column 7.	1-162
A	US, A, 4,736,294 (GILL ET AL) 05 APRIL 1988, see entire document.	1-162



Further documents are listed in the continuation of Box C.



See patent family annex.

* Special categories of cited documents:	* T	Inter document published after the international filing date or priority date and not in conflict with the application but cited to understand the principle or theory underlying the invention
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